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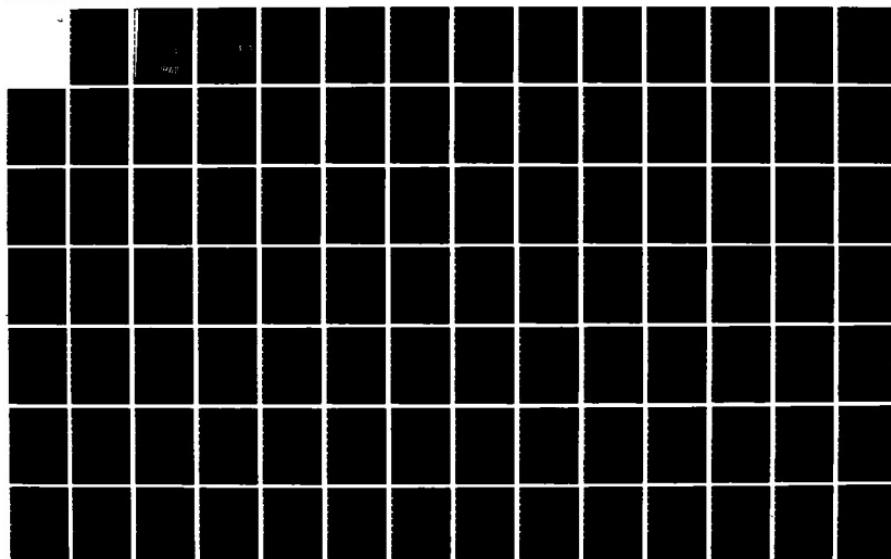
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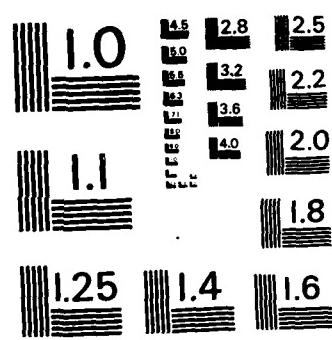
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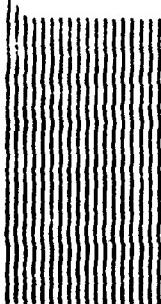
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Strategic Aspects of Pacific Cooperation Proposals

by Gavin Boyd

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ABSTRACT

Proposals for the establishment of a Pacific Community comprising the open market economies of East Asia and North America are being put forward by private groups, with some official backing, in Japan, the USA, Australia, and certain Southeast Asian countries. Cultural contrasts, differences in levels of modernization, and long distances, discourage optimism about the prospects for such a grouping, but the economic bonds between Pacific states are substantial, and are growing rapidly. Large communication flows across the Pacific moreover are tending to increase regional awareness and understanding.

Involvement in a Pacific Community could bring substantial benefits to the North American states. The growth of economic cooperation within such an association could also have major direct and indirect consequences of defence significance for the USA and Canada. In such a community Japan would be able to play a stronger security role than the one which it has begun to assume in the present pattern of East Asian relations. Moreover, certain authoritarian regimes in East Asia whose domestic policies generate social tensions could be induced to manage their political economies more responsibly, because of the external influences to which they would have to respond.

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RESUME ANALYTIQUE

Des groupes privés, bénéficiant d'un certain appui officiel au Japon, aux E-U, en Australie et dans certains pays de l'Asie du Sud-est, proposent la création d'une communauté du Pacifique qui regrouperait les économies de marché libre de l'Asie orientale et de l'Amérique du Nord. En raison des contrastes de culture, des différences des niveaux de modernisation et des longues distances, il est difficile de faire preuve d'optimisme quant aux perspectives d'un tel regroupement, mais les liens économiques qui unissent les pays du Pacifique sont importants et se développent rapidement. De plus, les grands courants de communication dans tout le Pacifique tendent à accroître une prise de conscience et une compréhension au niveau de la région.

Les pays de l'Amérique du Nord qui participeraient à une communauté du Pacifique en retireraient des avantages importants. La croissance de la coopération économique au sein d'une telle association aurait également d'énormes répercussions directes et indirectes en termes de défense pour les E-U et le Canada. Au sein d'une telle communauté, le Japon pourrait jouer un rôle en matière de sécurité beaucoup plus important que celui qu'il a commencé à jouer dans la structure actuelle des relations dans l'Asie orientale. De plus, certains régimes autoritaires de l'Asie orientale où les politiques intérieures provoquent des tensions d'ordre social, pourraient être amenés à gérer leur économie politique de façon plus responsable à cause des influences extérieures dont ils devraient tenir compte.

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INTRODUCTION

Large and complex economic interdependencies link the major industrialised democracies, principally because of the expansion of their trade with each other and the spread of transnational production processes which establish diverse connections between their industries. These interdependencies entail vulnerabilities, and therefore require fairly comprehensive overall management in the general interest, but this is difficult, mainly because the political concerns of national administrations frequently diverge and conflict. In recent years the problems of managing these interdependencies have become very serious, because of oil related recessions and resorts to protectionism. A very unfortunate consequence has been that the political strains over these economic problems have had negative effects on essential forms of defence cooperation. This has been especially evident in the NATO context, and it has happened at a time when the tasks of that alliance have been increased and complicated by the USSR's military development and its growing tendency to project force for political purposes.

Outside the NATO context the principal economic interdependencies of global significance are those between the USA and Japan. In this relationship large favorable trade balances maintained by Japan cause serious strains, although in US world commerce these are offset by favorable balances in US trade with the European Community. US pressures on Japan to purchase more American products tend to cause resentment, reducing levels of understanding and goodwill. The security relationship between the two states suffers on this account, because the Japanese administration has an incentive to compensate for somewhat inadequate bargaining strength on economic issues by limiting cooperation on defence matters. On the US side there are strong tendencies to demand substantial increases in Japan's low rate of defence spending, so that security responsibilities in Northeast Asia will be spread somewhat more equally. Japanese administrations

are disinclined to respond while coping with US demands on trade, and have to reckon with the likely political costs of policies that would increase the size of their military establishment. The issues of military cooperation of course would be easier to resolve if the economic relationship were transformed into a vigorous partnership, and accordingly the state of that relationship must be of special interest to military planners working on Northeast Asia while they attempt to engage with the security problems of that area.

Much of the current policy literature deals with the US-Japan economic relationship, but there is a significant volume of studies relating to proposals for a Pacific Community. This would comprise Japan and the USA, and several states that have major economic bonds with either or both of those states, viz Canada, Mexico, the members of the Association of Southeast Asian Nations, and South Korea. In that large grouping great benefits would result from collaboration to manage trade, production, and monetary interdependencies. Strong political ties would thus tend to develop between the members of this new international community. These ties would indirectly strengthen forms of Pacific defence cooperation. At the same time increased growth within the developing states of the community would help to overcome some of the major security problems affecting the stability of those states.

The current pattern of defence cooperation in East Asia is a network of bilateral military relationships centered on the USA. The most important and most active connections are those which the USA has with Japan and South Korea. In a Pacific Community strong political ties based on the management of economic bonds would bring Japan, South Korea, and the USA closer to each other and to the other members of that community. Individually, then, these states would be less exposed to Soviet pressures, and less susceptible to Soviet inducements. At the same time China's security would be indirectly improved.

The USA's political ties with China have a security dimension, based on some identities of defence interest in relation to the USSR. This dimension is difficult to define, because of

uncertainties of intent on each side, but it is clear that the Chinese fear the USSR, because of the large Soviet deployments near their borders, and are apprehensive about Soviet involvement in East Asia, particularly in Vietnam. China's interests could be served, therefore, by the emergence of a Pacific Community, if the political cooperation between its members reduced opportunities for Soviet diplomacy in East Asia. China at first would probably not seek membership of this association of open market states, but Chinese commerce with those members would probably expand. Economic growth within the grouping, facilitated by trade liberalisation and by collaboration in economic policies, would no doubt tend to strengthen the new pragmatic orientation of China's modernization program, and, thus, increase China's interest in coexistence with nonCommunist neighbors.

In Southeast Asia the USA has defence links with the Philippines and Thailand, and provides some military support for Indonesia and Malaysia. These connections are significant in view of the Soviet presence in Vietnam and Soviet support for Vietnam's occupation of Cambodia. A Pacific Community would exert an attraction on Vietnam, and could offer that state a form of association that would help to reduce its dependence on the USSR. Vietnam is experiencing acute economic problems, and has difficulty in coping with these in the framework of its relations with the Soviet dominated Council for Mutual Economic Assistance.

An immediate problem for members of the Association of Southeast Asian Nations, and for the USA, is that Thailand's security is adversely affected by the Vietnamese involvement in Cambodia. Thailand gives haven to Cambodian refugees, some of whom engage in guerilla warfare against the Vietnamese forces, and the Thai government reportedly facilitates a flow of Chinese aid in support of that guerilla warfare. Occasional Vietnamese military actions across the border are directed at Cambodian guerillas, but threaten Thai control of frontier areas. There is a danger that Vietnam will develop links with the Thai Communist movement, which has been waging a campaign of terrorism against the Thai administration in the

country's Northeast provinces. This movement has been aligned with China, but its supplies from China have been cut since the outbreak of Sino-Vietnamese hostilities, and over the past few years it has lost much of its strength, mainly because of generous amnesty offers by the Thai government. If Vietnamese aid is received the movement may gain strength, although cultural and ethnic differences will tend to hinder cooperation between its Thai members and the Vietnamese.

Thailand receives political support from all the other members of the Association of Southeast Asian Nations when protesting against Vietnamese border attacks, and, with those members, opposes the Vietnamese occupation of Cambodia. Indonesia and Malaysia, however, view China as a security threat to the area, and see a need to establish better relations with Vietnam. If all the members of the Association of Southeast Asian Nations became active within a vigorous Pacific Community Thailand's position would be improved in several respects. Increased economic growth in Thailand would help to reduce social tensions in the Northeast provinces that can be exploited by revolutionary groups. Political bonds with other members of the Community moreover would enhance Thailand's capacity for bargaining with Vietnam, to establish a basis for coexistence. Thailand's military connection with the USA, moreover, would become a more active partnership, within a context of multilateral links that would tend to involve forms of defence cooperation.

The direct and indirect security benefits that would probably result from the formation of a Pacific Community receive little attention in current policy literature, and appear to have little influence on the attitudes of US, Japanese, and ASEAN decision makers. These attitudes are cautious, and relate mainly to estimates of the utility of forming a consultative association, in which informal arrangements will facilitate adjustments of economic policies in the common interest. The potential security implications of Pacific Community formation however are clearly relevant for administrations in the prospective members, and especially for the USA, because its East Asian security commitments are tending to strain its resources. US, Canadian, and Japanese decisions on the question of forming a

Pacific Community will be taken primarily if not exclusively for economic reasons, but the introduction of security considerations will help to form holistic perspectives. This must be emphasised, not only because of the importance of the security considerations but also because the anticipated economic benefits of forming a Pacific Community will not be realised without general understandings of and commitments to the basic principles of what may be called integrative diplomacy, aimed at the building up of international communities. Appreciation of such principles tends to be lacking in the current foreign economic policies of the industrialised democracies.

In the current policy literature most proposals for the formation of a Pacific Community argue that the large size and fairly rapid growth of the economic bonds between the East Asian and North American open market states are necessitating consultative efforts to coordinate and adjust national policies in the general interest. This logic is very persuasive, but comparative studies of regional integration endeavors indicate that comprehensive and sustained collective efforts are needed to harmonise the policies of interdependent states, for substantial and equitably distributed benefits, and that such efforts require the development of strong common institutions.

STRATEGIC ASPECTS OF PACIFIC COOPERATION PROPOSALS

1. This paper examines the security implications of proposals by private Japanese, US, Australian and Southeast Asian groups, mostly associated with the Pacific Basin Economic Council, for the development of a Pacific Community in which the open market East Asian and North American states would consult on major issues affecting their trade, monetary, and investment policies, and seek to adjust and coordinate these in the general interest. The advocates of such cooperation are mostly international businessmen and economists who focus on the potential gains from policy harmonisation and from common measures to increase regional trade. The possible consequences for Pacific security receive little mention, but it is clear that in the proposed community the rise in levels of cooperation would extend into areas of policy where economic and defence concerns are linked. The economic benefits for the prospective members would be substantial, especially because of the high growth rates of most of the likely East Asian participants in the grouping, which are reflected in fairly rapid expansions of Pacific trade. Some liberalisation of that trade, of course, could be expected if the community were established, and commerce between the members would certainly be stimulated by the growth of new bonds between Pacific governments.

2. As most of the readers of this paper will be members of the North American defence communities, with Atlantic orientations, there are some initial observations on the links between the foreign economic and defence policies of the NATO members. These observations relate to strains in the Atlantic Alliance that have occasioned US and West European proposals for increased cooperation in both areas of foreign relations.

3. The remarks about NATO refer to major security problems outside its area. Some of the problems are posed in East Asia, and the paper begins to focus on these; many of them are especially significant for Japan, the largest industrialised democracy in close proximity to major concentrations of Soviet military power. Economic issues are brought into the context of East Asian security problems, in order to set the stage for a review of the ways in which difficulties

in both areas of foreign relations could be overcome through regional cooperation.

Defence and Foreign Economic Policy Linkages

4. Between the industrialised democracies there are complex and extensive interdependencies. These have resulted from trade expansion, involving sectoral and intrasectoral specialisation; a vast growth of transnational production; large speculative investment flows; and the development of common vulnerabilities to changes in exchange rates and monetary policies. Sensitivities to these interdependencies have been increased by the current general recession, especially because of numerous attempts by governments to gain advantages through protectionist measures.

5. The international organizations through which the large industrialised democracies interact on issues affecting their interdependencies are weak, and there is a danger of disorder in the international economy. Unresolved issues cause serious tensions between the USA and Japan, The European Community and Japan, and the USA and the European Community. Only within the European Community are there sustained attempts at collective decision making to harmonise economic policies.¹ These attempts are given urgency by, but are also hindered by, slow growth, deficits in trade with the USA and Japan, and vulnerabilities to the effects of US monetary policies. Protectionist measures adopted by members of the Community tend to be directed against the USA and Japan, and other outside states, rather than against trading partners within the grouping.² General awareness of the magnitude of the economic bonds between the major industrialised democracies has grown, but the prospects for improved management of their interdependencies have become unfavourable, especially because the options of their governments have been restricted by strong domestic pressures from ailing industries.³

6. In the Atlantic context economic strains have tended to aggravate tensions over security issues. This has caused numerous expressions of concern by Western experts over the past few years, and they have advocated intensive efforts to improve understanding

and cooperation within the alliance.⁴

7. The most significant recommendations have been made by prominent figures in US, West German, British and French institutes of foreign affairs. In an authoritative statement they have affirmed that deep cleavages over economic and security issues have emerged between the USA and its West European partners, and they call for renewed commitments to the building of a security community, especially through the establishment of consultative structures to harmonise defence and economic policies and to facilitate better crisis management. These structures, according to the statement, will be needed to cope with expected Soviet pressures.⁵ Because of a preoccupation with security questions the document does not discuss the ways in which these are affected by economic problems, but it reflects understanding that tendencies to pursue national advantage on trade and monetary issues have tended to lower levels of military cooperation.

8. Questions of West European unity are given little consideration in the joint statement but they are highly significant for its concerns. Low levels of cohesion within the European Community tend to make each member very sensitive to the increasing projection of Soviet power and to Soviet inducements regarding the possibilities for coexistence.⁶ Levels of understanding, trust, and cooperation between the West European NATO members as well as between them and the USA are thus affected, while West European economic grievances against the USA tend to be expressed in efforts to shift burdens of alliance management to that partner.⁷

9. NATO's problems have broad significance. Isolation from or solidarity with trading and alliance partners affects a state's responses to threatening or conciliatory behaviour by an adversary, especially by entering into calculations about the feasibility of alternative courses of resistance and compliance. Perceived economic discrimination by a major alliance partner will tend to reduce trust in that partner's military commitments, and may lead to shifts towards more independent postures, or towards some degrees of accommodation with the adversary. Meanwhile the difficulties of alliance management may incline the major partner towards possible

accomodations of its own with the adversary, or distracting pursuits of other potential allies, or policies of self-reliance that entail neglect of alliance obligations, and that may lead to high risk forms of unilateralism.⁸

10. In Third World areas where the United States acts apart from its European allies the forms of military cooperation which it undertakes are much less intimate and have a provisional quality. The sensitivities of the Third World allies to projections of Soviet power tend to be acute, they perceive major uncertainties in US security policies towards their areas, and of course they recognise that US defence policy accords higher priority to NATO members. For most of the Third World states receiving US military support, then, as for the USA, the relationship has to be managed at "arms length", and accordingly there is caution about extending aid to neighbours that have become dependent on US military assistance to meet internal or external threats.⁹

11. It is difficult to rank Third World regions in terms of their significance for the central balance, but East Asia is clearly one of the most important, because of the presence of China and the high growth open market states - the Newly Industrializing Countries; the Soviet involvement in Vietnam; the antagonisms between China and the USSR, and China and Vietnam; and Japan's unique role as an economic superpower. There is a strong projection of Soviet power in East Asia, Japan is militarily weak, and China is seriously vulnerable to attack by large Soviet forces deployed along the common border and in Mongolia. Of the smaller states in the region several, including Thailand and South Korea, confront external and internal security problems.¹⁰

12. The USA will continue to be the main source of external military support for Japan and the modernizing open market East Asian states. Some of the latter benefit from Australian and British military cooperation, but this is of modest proportions, and is not expected to increase to degrees that would reduce the significance of the USA's role. The fulfillment of that role may well become more difficult, however, because of the activities of the USSR and of local revolutionary movements. More active cooperation

from East Asian allies will probably be needed, and collaboration between those allies will become more desirable. The potential for regional economic cooperation is thus very significant in the security perspective, because of its positive implications for community formation.¹¹ Canada's interests will be involved, of course, if regional economic cooperation begins, and it may indeed be possible for Canada to provide some leadership in the formation of a Pacific Community, and thus influence the evolution of a consensus on structuring that association and on the orientation of common policies.

13. In the Atlantic context the USA can develop more cooperative relations with its West European allies, but it cannot join the European Community. In the proposed Pacific Community however the USA would be a central member, and could be expected to have very strong influence on the development of regional economic cooperation. Yet, for the long term evolution of the Community as an association for collaborative management of the economic bonds between members, it would be desirable for the USA to work for institutional arrangements that would give the smaller Pacific states strong representation in the collective decision making. Those states, of course, would have incentives to seek such arrangements, and, if they developed, US military ties with allies in East Asia would be indirectly strengthened.¹²

Pacific Strategic Relations

14. The United States is at the centre of a pattern of bilateral military ties which it maintains with numerous open market East Asian states. The resources allocated for support of those ties and for overall power projection in the area are smaller than those utilised for NATO purposes, and are subject to more restrictive domestic constraints. Hence economic and political elements in the USA's regional policy can be especially significant if they tend to strengthen the military connections. There is extensive scope for US diplomacy to enlarge the economic and political components of the current regional

policy by working for the formation of a Pacific Community, but little can be done by the US administration to reduce the internal constraints on its external security policy, which are mainly legislative.¹³

15. The Soviet Union deploys large naval and air forces in East Asia, with a high level of manifest commitment that ensures a potent projection of power. Active military links are maintained with North Korea and Vietnam, and there are frequent displays of naval and air strength in close proximity to Japan. Soviet government statements, and the routine output of Soviet media directed at East Asian audiences, warn states aligned with the USA to switch to policies supporting the USSR's struggle against "imperialism", and, thus, to increasing identification with the system of socialist nations.¹⁴

16. US deployments in East Asia are also large, but it is uncertain whether they are sufficient to ensure a viable strategic balance. The US regional security involvement is restrained, because of demands for military resources in other areas, including the Indian Ocean, and because of an unwillingness to enter into local arms races, as well as because of uncertainties about China's role in the area.¹⁵ Low level US military cooperation with China exerts leverage on the USSR, but rouses much Soviet hostility. On the US side there is evidently some willingness to downgrade ties with China in order to reward any conciliatory Soviet behaviour, and there may also be a readiness to respond to such behavior by reducing the size of the US military presence in East Asia.

US-Japan Security Ties

17. The most important military link in the USA's East Asian security network is with Japan, under a Mutual Security Treaty. This treaty, dating from the end of the post World War II occupation, was at first directed against both the USSR and China, but since the 1960's has been aimed only against the Soviet Union, and in recent years has been given a measure of Chinese approval. Japanese government and public

concern about the danger of Soviet aggression has grown over the past decade because of large build-ups of the USSR's Far Eastern forces, in close proximity, and threatening displays of Soviet power close to and within Japanese waters and air space. In Japanese government circles however there is uncertainty about the course to be followed in external security policy, and about US intentions and capabilities, although US naval and air strength in and around Japan increased significantly during the past few years.¹⁶

18. At the basis of the US-Japan security relationship are assessments of Soviet deployments, doctrine, and behaviour shared between the two defence communities. The assessments concern Soviet forces on the Kurile Islands, north of Hokkaido, and in nearby parts of the Soviet Far East, especially in the areas around Vladivostok, headquarters of the Soviet Pacific Fleet. These forces constitute a powerful offensive capability, and Japanese sensitivities to their presence are acute not only because of threatening Soviet air and naval displays but also because the USSR refuses to meet Japanese requests for the return of the Southern Kurile Islands. The Soviet Pacific Fleet exceeds 700 ships (estimates suggest more than 1.4 million tons) including 60 major surface combatants and 120 submarines. The US Seventh Fleet comprises some 55 naval craft (about 600,000 tons). Soviet air strength in East Asia - some 2000 combat aircraft - is approximately five times that of the USA.¹⁷

19. Japan's defence forces are small and conventional. The approximately 160,000 troops and 450 aircraft, together with a modest navy of 33 destroyers, 16 frigates, 14 submarines, and other craft, would be capable of only short term resistance to a large scale Soviet attack. These forces are growing, but slowly, because the ruling Liberal Democratic Party is unwilling to lose voter support by acceding to US demands for higher defence spending. Important sections of the Japanese public would probably oppose substantial increases in defence spending because of fears of provoking the Soviet Union, enhancing the importance of the

military establishment in Japan's parliamentary system, and opening the way for association with the USA's regional and global policies.¹⁸

20. The weaknesses of Japan's forces of course result in heavy dependence on US military protection. US armed strength in Japan however is small - 43,000 ground troops and less than 200 aircraft. This military power moreover is not closely associated with the Japanese forces, that is in a way that would ensure prompt joint responses to aggression. Japan, accordingly, is extremely vulnerable, because paralysing surgical strikes against key industrial and communications centres could be prevented only by very swift and powerful reactions. Comprehensive joint understandings that would be necessary for contingency planning are evidently not being reached. Joint exercises, however, have been undertaken, including the large scale naval Rimpac project in 1980. On the Japanese side there appears to be considerable uncertainty about the willingness of the USA to retaliate promptly and with sufficient force in the event of Soviet aggression, although efforts seem to be made by US officials to give credible assurances of active intervention after significant initial losses have been inflicted on any attackers by Japan's armed forces. A major constraint on the US is felt to be its unwillingness to embroil its NATO allies and risk the security of its own territory in a war to defend Japan.¹⁹ Efforts are being made by each government, however, to improve their military cooperation.

21. While vulnerable to aggression against its own islands, Japan is also vulnerable to disruption of its shipping, on which it depends for vital fuels and raw materials. The nation's naval and air forces cannot provide adequate protection for its sea lanes, and in this respect also it is therefore heavily dependent on the USA, whose present naval capabilities could well be stretched in an emergency.²⁰ The Japanese administration however is unwilling to seek partnership with the USA on an extensive geographic basis, because for the present this would not be domestically acceptable. Japanese government attitudes moreover are influenced not only by the difficulties of acquiring greater

national defence capabilities and of securing firm commitments from the United States but also by strains over economic issues. Efforts by the United States to secure increased access to the Japanese market and to limit Japanese exports to the USA are resented, especially because strong consumer demands in the USA for Japanese products have been attributable to the quality and competitiveness of those goods, and because the high price of oil has been the main source of US balance of payments difficulties.²¹

22. In the extensive bureaucratic, business, party, and academic interactions that shape Japanese policy there seems to be agreement that an independent new external security role must be developed, separate from but basically compatible with that of the USA. Uncertainties about the intentions, capabilities, and wisdom of US international security policy are the main sources of emphasis on the need for an independent Japanese defence orientation. There appears to be a fairly pervasive consensus that this orientation must accord with popular aspirations for a policy that will manifest Japan's autonomy, cultural uniqueness, and global economic interests, while avoiding entanglement in conflicts outside the immediate environment.²²

23. Most of the current Japanese thinking about defence is directed towards the attainment of comprehensive security. This term is used by Japanese authors to refer to assured supplies of food, fuel, and raw materials from sources across the globe; the prevention of serious disruption of the nation's shipping routes; the development of friendly ties with many states through peaceful diplomacy; and the maintenance of a minimum self defence potential, possibly with the acquisition or development of tactical nuclear weapons. These aspects of external security are conceptualised with reference to the nation's heavy dependence on foreign trade and its lack of territory for defence in depth, which entails great vulnerability to nuclear attack.²³ The security treaty with the USA is thus viewed as a necessary deterrent to aggression for the indefinite future. Little analysis of Soviet policy is brought into public Japanese discussions of

external security policy, but there are some indications of hope that rapid economic growth and technological advancement will enable Japan to implement a large scale strategy of interdependence with the USSR, so as to draw that regime into the acceptance of coexistence.²⁴ Yet for the time being there is emphasis on the recently established policy of giving priority to the expansion of economic ties with China, and thus contributing indirectly to the growth of that regime's military capabilities.²⁵ This, however, it is appreciated, will have only a slow impact on the regional military balance, because of the numerous administrative, financial and other problems which are hindering China's modernization.²⁶

24. There is some reticence in the public Japanese debate on external security policy, which reflects sophisticated appreciation of the utility of posing uncertainties for adversaries, and a dislike of the US media's tendency to publicise every high level discussion of defence issues. It appears however that some Japanese political and military figures wish to see higher defence spending, in order to build up a capacity for vigorous and sustained conventional resistance to any possible aggression, but with little publicity and without any pronouncements that might draw greater Soviet hostility or weaken the electoral strength of the Liberal Democratic Party.²⁷

25. US management of the security link with Japan is guided by global as well as regional strategic considerations, and is affected, understandably, by tendencies towards unilateralism. Neither side has a significant voice in the other's policy processes, and neither can exert any significant influence on the other through association with third parties.

26. In the USA's global strategic concerns Western Europe receives greater attention than Japan, and, in the East Asian regional context, a perceived congruence of security interests with China causes much US preoccupation with that state's military potential as an adversary of the USSR. These aspects of the US perspective of course are partly responsible for the elements of unilateralism in US security dealings with Japan, and it may well be

that some of this unilateralsim is intended to demonstrate to the Japanese that they must increase their defence capabilities if they wish to have a more active consultative connection with Washington. Deployments of the US forces that provide immediate protection for Japan appear to be made without initiating prior dialogue, and there are evidently no discussions on the US military role in South Korea, or on the development of US military collaboration with China. On the Japanese side a barrier to the development of a fuller consultative connection is the concern to avoid association with the USA's regional and global security policies.²⁸ This does not encourage moderation of the US unilateralism, but without doubt there are initiatives which the USA could take to facilitate more genuinely collaborative determination of the composition and tasks of US forces in and around Japan.

27. While the alliance relationship with the USA remains somewhat distant, Japanese security policy has to reckon with the danger of aggression by the powerful Soviet forces in close proximity. Planning for vigorous immediate resistance can be realistic on the assumption that the USA would have to respond with sufficient force to obstruct the aggression, otherwise the credibility of US commitments to West European defence would be drastically affected. This probability must influence Soviet calculations, and accordingly Japan has to anticipate that the increasing displays of Soviet force may be intended to have Finlandizing effects, that is causing Japan to make progressive accommodations with Soviet policy.²⁹ Military cooperation with the USA could be reduced, increasing restrictions could be placed on US deployments in Japan, substantial contributions could be made to the development of the Soviet Far East, a pledge of friendship with the USSR could be made in the context of an overall settlement that would leave the USSR in possession of most of the Kuriles, and some shifts could be made towards an Indian style nonaligned diplomacy, with a pro Soviet bias. At present the general hostility felt towards the USSR suggests that a Finlandizing Soviet strategy would not be successful, but, over time, threatening demonstrations of Soviet power might force

the emergence of relatively accommodating leaders from the ongoing high level factional rivalries in the Liberal Democratic Party, or weaken its popularity to a degree which would obligate its acceptance of a coalition government - perhaps with the Komeito - that would be somewhat compliant with Soviet wishes. A Finlandizing Soviet strategy of course would involve the use of inducements, and the USSR can offer much more substantial economic incentives than China, if it chooses, especially with reference to the exploitation of the Soviet Far East's vast resources.³⁰

28. The extent to which stronger projections of Soviet power would evoke accommodating moves by Japan would depend on its administration's sense of isolation from or partnership with the USA, and on the nature of US countermeasures, if any. On this account, and because of the size of the Soviet forces now threatening Japan, it is in the USA's interests to transform the mutual security relationship into a close partnership, and, indeed, to build up an extensive and cohesive community into which Japan can be integrated. On present indications the US-Japan security relationship is likely to become more distant, and Japanese efforts to evolve a new and more autonomous defence role may lead to some risky experimentation with a strategy of interdependence towards the USSR that would entail acceptance of some Soviet leverage on Japanese policy. The current orientation of Japanese policy does not suggest that this option is probable, but the case for it may become more persuasive if the pace of China's modernization remains slow, and Japanese perceptions may undergo significant change if some tentative conciliatory gestures towards the USSR evoke favourable responses.

US-China Security Connections

29. The US-China connection which has evolved since 1971, at the expense of Taiwan's relationship with the USA, has high importance in the USA's regional security policy because of Peking's capacity to counter Soviet aggression with modest nuclear strikes and large scale "people's war", and because the Chinese

oppose Soviet policies on a global basis. There has been a gradual development of military consultations and cooperation between the USA and China, without formal commitments, which has signified US concern to assist the growth of China's defence capabilities, not on a scale that would provoke the USSR, but sufficiently to redress somewhat the overall military balance that is tilting in favor of the USSR and to exert pressure on the Soviet Union for military restraint and the acceptance of genuine coexistence. This appears to be the established orientation of a policy process that is more pluralistic than the shaping of US security policy towards Japan, and that involves much debate between groups favoring more active collaboration with the Chinese or a downgrading of the relationship in order to build up a new detente with the USSR.³¹

30. The congruence of security interests which sustains the connection with Peking is difficult to define because of major differences of perception between the participants in US decision making and uncertainties about the outlook and purposes of the current Chinese leaders. Chinese thinking is revealed only in politically controlled pronouncements, with much ideological language, and interpretations of Chinese behavior have to take into account the relative intellectual isolation of the Chinese leaders, the character of their information processing organizations, and the degree to which they can give expression to idiosyncratic factors. It does seem highly probable, however, that the Chinese ruling elite are convinced, especially on the basis of their dealings with the Russians in the 1950's, that the USSR is seeking world domination, and would demand strong influence in their regime as the price for reconciliation, as has been indicated in Soviet elaborations of the Brezhnev doctrine.³² The USA, notwithstanding its "capitalist" system, is clearly viewed as a conservative power that is inclined to pursue coexistence with the USSR and that must be given constant encouragement to oppose Soviet military and political pressures. US purposes are evidently seen to have a manipulative intent, especially because of public

references to the "China card" by US spokesman under the Carter administration. Accordingly the Chinese appear to see themselves coping with and utilising US instrumental moves, so as to cause the USA to assume more of the burden of the anti-Soviet struggle that the United States is attempting to impose on China.³³

31. The USSR's strategic and conventional forces along the common border and in Mongolia are very large. The ground forces include 46 divisions, that is more than the number deployed in Central and Eastern Europe; but not at full strength. China's sparsely populated northwest territories, Xinjiang and Inner Mongolia, which cannot be defended by "peoples' war" methods, are extremely vulnerable. The small Chinese strategic forces, which are technologically inferior to those of the USSR, are exposed to Soviet precision strikes.³⁴

32. China's defence policy stresses self reliance, and this is practised by purchasing various advanced military items in small quantities from the West and developing capabilities to produce these for the Chinese armed forces. The process of military modernization is slow, especially because of budgetary limitations and the general shortage of technological skills, attributable in a large measure to the policies of the Maoist period.³⁵ There appears to be confidence that the USSR will be deterred from aggression by the prospects of coping with a vast campaign of guerilla warfare and of triggering significant US retaliation, although the USA has made no formal commitment to support China in the event of a Soviet attack, and would probably face NATO opposition if such a commitment were considered.

33. The dynamics of the US-China security connection arouse much interest in US defence circles, and there is considerable speculation about the likely evolution of this relationship. Most studies of the subject affirm that China could operate with greater flexibility and leverage by introducing some cooperative elements into its behavior towards the USSR, so as to have a positive influence on Soviet policy and extract concessions from the USA.³⁶ In the present triangular relationship the USA

can have meaningful interaction with both the USSR and China, and, because of this, China is at a disadvantage as a totally hostile adversary of the Soviet Union. The possibilities for change in the three sided pattern however are often assessed without sufficient awareness of the constraints influencing each nation's behavior.

34. All members of the Chinese leadership seem to share deep hostility to the USSR, and a high proportion of them are probably convinced that the correct policy for their regime is one of strongly conflictual behavior towards the Soviet Union. This policy, as now being implemented, clearly helps to sustain unity within the Chinese leadership, allows the USSR little scope to exploit policy differences within that leadership, prevents penetration of Soviet ideological influences into China, and makes the Soviet authorities aware that any military moves against China would encounter powerful resistance. Nevertheless the Chinese leaders have an incentive to avoid entanglement in a conflict between the two superpowers, yet have to reckon with the possibility of large scale Soviet aggression against their regime at the onset of a global war. Some improvement in security, then, may be sought through the development of understandings with the USSR, possibly through secret talks.³⁷ The case for opening dialogue with the USSR may become more persuasive if the Soviet position in the global strategic balance grows stronger, and, if talks have begun, the two sides could be in agreement that their public displays of hostility should continue in order to deceive the USA.

35. On the US side China policy is basically subordinated to policy towards the USSR, and there is a disposition to reward rather than exploit any significantly conciliatory moves by the USSR: this suggests a readiness to reduce cooperation with China, although the goodwill that might be lost thereby would not be recoverable. But US policy has to recognise that the current mix of Soviet conflictual and mildly cooperative behavior in the superpower relationship may not change, or may become more hostile. China's utility as a potential partner

will remain significant, and may become more so, but if there is an improvement in Sino-Soviet relations Peking may well begin to assert its own interests more and more in its immediate environment, in opposition to those of the USA. In order to avoid a total loss of Chinese goodwill the USA might then be inclined to compromise, in the hope of retaining a measure of Chinese collaboration against the USSR while accepting Peking's acquisition of a zone of influence in East Asia. Alternatively, Soviet recognition of a Chinese zone of influence in that area might leave Peking free to struggle quite actively for the attainment of a strong position in the immediate environment while continuing to absorb technology from the USA.³⁸

36. The possibilities for change in the US relationship with China thus have great significance for the global position of the United States. The uncertainties that have to be considered raise urgent questions for Washington about risk reduction and the development of more control over happenings in East Asia, thus making it imperative to examine ways of working more closely with friends and allies in that region, particularly Japan. For Japanese decision makers, of course, the difficulties of estimating the future of the US-China relationship add to the importance of evolving a distinctive and autonomous external security policy, but, to the extent that this develops, the problems of coordinating Japanese and US policies may well become quite difficult. The USA could be inclined to accept higher risks in its efforts to utilise the China connection for a more effective strategy against the USSR.

US - S. Korea and Taiwan Links

37. The USA's ties with China tend to divert Washington's interest from established security links with South Korea and Taiwan. These links date from the Korean War, when the USA extended military protection to both states under treaties which expressed strong commitment. The obligation to South Korea is honored by the deployment of US forces to augment the capabilities of South Korean armed services, and the

credibility of the US security pledge to South Korea remains high because it is widely recognised that Japan's security would be threatened if the Pyongyang regime gained control of the peninsula by force. The US treaty obligation to Taiwan, however, was renounced by the Carter administration, and has been replaced by an unofficial arrangement which provides for sales of US military equipment to Taiwan at Washington's discretion.³⁹

38. South Korea is threatened by North Korean forces deployed along the 1953 truce line in the middle of the peninsula, and North Korea has military ties with the USSR. The Soviet Union gives political support to hostile North Korean behavior towards the South Korean administration, and the USSR's own large forces in nearby parts of the Soviet Far East would pose a major threat to any US military units that would be involved in a renewal of hostilities between North and South Korea.⁴⁰ There are tensions in the North Korean relationship with the USSR, but if North Korea began a major attack on the South the USSR would almost certainly provide sufficient support to ensure that its client would suffer no large scale reverses, and would probably be eager to provide all the assistance that would be needed for a North Korean victory, on terms that would facilitate the establishment of a strong Soviet presence in the peninsula.⁴¹

39. The North Korean relationship with the USSR is close, but there is an effort to maintain some independence from the USSR by retaining connections with China. China is a secondary source of support for North Korean denunciations of the South Korean regime, but there is a clear preference for Soviet global policies in so far as they express hostility to the USA. If a new Korean war broke out China would have to observe much caution in order to avoid antagonizing the USA by supporting the Pyongyang regime, and presumably would not wish to see North Korea become heavily dependent on the USSR. Hence, it can be argued, China is probably opposed to the aggressive behavior of the North Korean regime towards its neighbor. The USSR, however, standing to gain from a policy of full support

for North Korean pressures against the South, is presumably concerned only about the phasing of the campaign against the Seoul government and the incorporation of that campaign into a regional strategy that is concerned mainly with China and Japan.⁴²

40. The US military link with South Korea is firm, but the bond is not intimate and on the US side there is a strong concern to ensure that any further conflict will be confined to the peninsula. The urgency of maintaining defence of the regime is fully recognised, but there is little sense of political affinity with it, and cultural differences limit empathy with its problems.⁴³

41. The possibilities for overall rapport with the South Korean administration are limited partly because this government is led by authoritarian individuals with strong nationalist motivations who fear that a representative system would not be able to cope effectively with the combination of pressures and inducements that would be directed at it by North Korea. Phases of relative political freedom in South Korea over the past decade have facilitated the growth of organizations which, while agitating for full democracy, have been in favor of accommodating with North Korean demands for unification of the country. The US administration wishes to see a broadly supported government in South Korea, and seeks to moderate the present regime's authoritarianism, but clearly does not wish to pressure that regime in ways that would seriously divide its military establishment and increase the dangers of popular unrest.⁴⁴ The character of the North Korean regime - a highly oppressive and militantly expansionist system - influences the US perspective. The regional outlook associated with that perspective moreover is dominated by the requirement to prevent Soviet gains in Northeast Asia that would weaken Japan's security. In the longer term there may be US hopes that a militarily stronger Japan will assume some responsibility for the protection of South Korea, but for the present that possibility is ruled out because there is still much anti-Japanese nationalism in South Korea, deriving from experiences during

Japan's occupation of the peninsula.⁴⁵

42. The US security tie with Taiwan, since the Carter administration's derecognition of the Republic of China, has differed greatly from the military link with South Korea. In the US administration's view there is no immediate danger of aggression against Taiwan. The Peking government's ambitions for control of the island are restrained by desires to profit further from the US interest in China as an adversary of the USSR, and the question of ensuring that Taiwan will retain a modest defence capability, it is felt, can be resolved without serious strain in the relationship with Peking. While it is recognised that any improvement of Sino-Soviet relations will affect Taiwan's significance, no such improvement seems to be anticipated.

43. On the US side there is little sense of affinity with Taiwan, and rapport with the Republic of China government is quite limited, because of the US preoccupation with Peking, and Washington's insistence on managing the relationship unofficially. The Republic of China's administration is authoritarian, but it enjoys considerable popular support because the bulk of the island's population would fear the consequences of submission to rule by Peking. Taiwan has made rapid economic progress during the past three decades and the results of its prosperity have been distributed rather evenly. There is no significant US military presence on the island, but strategically it is important because of its position on Japan's sea routes through the Western Pacific into the Indian Ocean, and its potential as a base for the projection of US power in the Western Pacific and in Northeast Asia.⁴⁶ As a successful rapidly industrialising political economy, moreover, Taiwan evidently has some demonstration effect on the Chinese Communist leaders who are seeking to promote growth in their economy while overcoming the dysfunctional consequences of Maoist policies. By maintaining its established pace of advancement Taiwan probably adds to the persuasive appeal

of the relatively pragmatic growth strategy that is being implemented by the present Peking leadership.

44. Under the Taiwan Relations Act of March 1979, which reflected Congressional concern at the Carter administration's handling of the issue of recognising the mainland Chinese government, any effort to determine the future of Taiwan by force or the threat of force is to be viewed by the United States with grave concern, and the United States will maintain a capacity to resist any attempt to shape the future of the island by coercion.⁴⁷ How the Act will be observed will of course depend on the outlook of the current administration, and it must be stressed that this will be influenced by the evolution of the relationship with Peking. Chinese Communist responses to US offers of military equipment have expressed resentment at the continuation of US military aid to Taiwan, thus indicating a determination to force termination of that aid before increasing the level of military cooperation with the United States. If the USSR projects its power with greater effect in East Asia, the US administration may become more anxious to build up the security link with Peking, and may be inclined to compromise with its demands concerning the flow of military equipment to Taiwan.⁴⁸

45. Because of the uncertainties that must be reckoned with concerning military procurements from the USA the Taiwan government is endeavoring to build up its own defence industries. The urgency of increased self reliance in this regard was dramatised during 1980 by the Carter administration's severely restrictive attitude to Taiwan's attempted military purchases from the USA, and by that administration's emphasis on consolidating its ties with Peking despite the Chinese Communist aggression against Vietnam that followed soon after Deng Xiaoping's visit to the USA early in 1980. Taiwan's capacity to expand its defence industries is small, although it has reached a level of industrialisation similar to South Korea's, and finances substantial imports of capital goods (US\$ 4.62 billion in 1980, ie. 23.4% of total imports) through vigorous export promotion.⁴⁹

The USA is the main source of military technology, but during 1982 the Reagan administration cancelled deliveries of advanced fighter aircraft, at Peking's insistence, and undertook to gradually reduce the scale of its military aid to Taiwan.

US-ASEAN Security Bonds

46. The USA's defence ties with Japan, South Korea, and Taiwan are complemented, in Southeast Asia, by security connections with the Philippines, Thailand, Indonesia and Malaysia. These connections, however, have been significant more for the internal than the external security of those states. An exception is the Philippines, where the United States has naval and air bases that facilitate the maintenance of a strong presence in the Western Pacific.

47. The military ties with the Philippines and Thailand are based on formal pledges of protection, but for Indonesia and Malaysia the USA is simply an arms exporting state with an interest in their security. On the US side each of the four bilateral relationships is managed separately, but these states, together with the small island polity of Singapore, constitute a subregional community - the Association of Southeast Asian Nations. This grouping is not officially concerned with defence issues, but much of the impetus for its currently moderate level of consultative activity has derived from the Communist victories in Indochina and the recent growth in Sino-Vietnamese antagonisms and Vietnamese-Soviet military links.

48. The USA's security bonds with the ASEAN states were weak in the period immediately after the Communist victories in Indochina, because those victories had tended to discredit the utility of US involvement in support of governments threatened by revolutionary movements, and because the US Congress had severely restricted the President's war making powers. Vietnam's alignment with the USSR, invasion of Kampuchea, and confrontation with China, however, led to increasing US interactions

with the ASEAN members on security issues, and these were encouraged by China in so far as they were directed against Vietnam and the USSR. On the Chinese side there was a desire to enlist Thai cooperation for the support of anti-Vietnamese guerillas in Cambodia, and such collaboration began, although this was opposed by Malaysia and Indonesia. These two states do not wish to see Vietnam forced into heavy dependence on the USSR and view China as a danger because Peking maintains active links with the Communist movements that have been endeavoring to wage campaigns of political violence in most of the Southeast Asian countries, including Thailand.⁵⁰

49. The USA's security link with the Philippines is the most important of its ASEAN connections because it is the only one that provides the use of naval and air bases and because the USA's economic interests in this country, compared with the other ASEAN members, are extensive and long standing. Further, there are cultural ties, deriving from the colonial period, and, on the Philippine side, there is some goodwill, deriving from the character of the colonial experience and the spontaneous granting of independence by the USA in 1946. The air and naval bases are vital for US deployments in support of Japan's defence and for the protection of shipping through the South China Sea, but have no immediate significance for current Philippine security problems, which are domestic.⁵¹

50. Philippine society is dominated by a regime headed by President Marcos, who exercises virtually absolute power, and shares little of this with the armed forces, on whose support he is heavily dependent. The armed forces receive substantial US military assistance, and the Marcos administration enjoys a measure of official approval from the US government. The regime's authority is opposed, with varying degrees of violence, by groups of politicians who were active in the country's democratic system before Marcos established power, and by Communist insurgents, aligned with China, on the island of Luzon. There is also resistance in the South, principally on the island of Mindanao, from Moslems seeking

autonomy. The most important threat is that of the Communist insurgents, estimated to number more than 5,000, as they are endeavouring to build up a large movement with peasant and worker support.

51. The potential for revolutionary violence is probably large. As in many authoritarian regimes that are seeking to promote industrialisation the living standards of urban workers have been held down, and with the spread of commercial agriculture there is considerable exploitation of the lower strata of the rural population. Moreover, sections of the middle class are being alienated by the regime's methods of rule.⁵² If there are serious upsurges of popular hostility there may be a transfer of power to the military leadership, as has happened in various Third World states in which forms of personalised autocratic rule have lacked viability. The new authorities, it could be expected, would enjoy some popular support, and could retain this if they opted to govern with some responsiveness to major representative groups, as is being attempted by some ruling military elites in Latin America.

52. There may be serious unrest in the Philippines before the Communist movement acquires capabilities for large scale violence. Such instability could provoke a military takeover, in circumstances which could make the army leaders aware of the importance of effective administration in the public interest. This military leadership, moreover, might well be made open to persuasion by the USA that its authority should later give way to that of a representative system. If the Communist movement undertakes an extensive armed struggle while the present system of government is challenged by popular unrest, however, the USA will be confronted with some difficult choices. Substantial active military intervention will be virtually impossible, because of Congressional restraints and memories of Vietnam, but increasing US military support for the regime will cause the United States to be identified with its policies. On present indications these choices would not be complicated by external threats, but that could happen if a deterioration of Sino-US relations were followed by the provision of Chinese arms to the Philippine Communists, or if those insurgents turned to the USSR and Vietnam for aid.

53. Thailand, the only other Southeast Asian state with which the USA has formal security ties, does not provide the United States with military bases, and commands less interest because the US economic presence is small, but has strategic significance because of its central position in continental Southeast Asia and because it has to deal with a Communist guerilla movement in the northern and northeastern provinces that can be supplied from Laos and Cambodia.⁵³ Thailand faces military pressures from Vietnam, in retaliation for assisting the movement of Chinese aid to guerilla units in Cambodia that are fighting against the Vietnamese occupying forces.

54. The United States extends military protection to Thailand under cautiously worded agreements made in 1961 and 1954 which have to be interpreted in the light of the Congressional limitations on Presidential war making powers that were imposed before the Communist victories in Indochina during 1975. These limitations make it unlikely that a US administration would be able to commit forces to the support of a counterinsurgency campaign in Thailand even if there were active external military assistance for the rebels. The significance of the military connection, then, is that the United States provides Thailand with equipment and other forms of assistance for the development of the armed forces, primarily in order to meet internal security tasks and counter limited Vietnamese border penetrations. There is no intention to provide assistance that would give Thailand parity with the large Vietnamese military establishment, and it seems that the present US administration is not attempting to acquire military bases in Thailand that would facilitate deployments in continental Southeast Asia to match those of the USSR in Vietnam.⁵⁴ The United States utilized military bases in Thailand during the Vietnam war, but these were given up under pressure from a civilian Thai administration that had been established after a popular revolt against military rule in 1973.

55. The present Thai administration is a military regime dominated by generals who attained power through coups after

a return to army rule in 1976. This polity has many of the institutional weaknesses of its predecessors but there is a considerable dispersal of power at the top and authority is exercised with informal accountability to a civilian political elite, some of whom are members of an elected assembly that has consultative functions.⁵⁵ The security threat from the Communist insurgents, moreover, is a less immediate danger because these have divided into factions and have lost considerable strength over the past few years on account of defections encouraged by a government amnesty and the termination of aid flows from Laos and Cambodia after the 1978 Vietnamese invasion of Cambodia. There are indications that Vietnam is seeking to establish its own influence in the Thai Communist movement and remove Peking's. There have been reports that the Chinese are urging the Thai Communists to adopt the role of a patriotic force fighting with the Thai government against the Vietnamese, but the Thai military leaders have rejected suggestions that the Communists should be accepted as allies, and are acting with restraint to prevent escalation of any border conflicts with Hanoi's forces.⁵⁶

56. The USA interacts somewhat distantly with the Thai administration, and rapport is made difficult by cultural contrasts, instability within the Thai military leadership, and the numerous uncertainties that affect the country's security problems.⁵⁷ On the US side there is a concern to avoid involvement of a kind that might entail political costs after the replacement (perhaps by coup) of an administration with which close ties had been established, yet very active collaboration seems necessary to engage with the problems presented by the Vietnamese in Cambodia. The consolidation of Vietnamese power in Cambodia, with Soviet backing, would probably be followed by Vietnamese efforts to build up and support affinitive revolutionary groups in Thailand. The Thai cooperation with China in supporting anti-Vietnamese guerillas in Cambodia does not promise long term success, and meanwhile

antagonises the Vietnamese without earning appreciable Chinese goodwill, since Peking's links with Thai Communists remain active and may be strengthened in order to counter Vietnamese penetration of that movement. US policy in relation to this situation is unclear, but the importance which the US administration attaches to its links with Peking indicates an unwillingness to take a position on Thai security policy that might be resented by the Chinese, and a desire to be associated in some way with Chinese pressures against Vietnam.⁵⁸

57. Thailand's military links with the USA could be weakened if efforts were made to establish a basis for coexistence with Vietnam. Thai consideration of that option is encouraged by the Malaysian and Indonesian administrations, but is discouraged by awareness of heavy dependence on US military and economic support and by the danger of a more active Chinese assisted Communist insurgency in the north and northeast. Thai attitudes, moreover, are influenced by the USA's unwillingness to develop a coexistence relationship with Vietnam, and by awareness that this derives from concerns with strengthening the US-China connection, as well as from opposition to the Vietnamese seizure of Cambodia.⁵⁹

58. The policy of the Thai military elite is influenced by US and Chinese interests, but there is sensitivity to the Malaysian and Indonesian criticisms that China is a security threat to Southeast Asia and that Vietnam should not be forced into heavy dependence on the USSR. These criticisms reflect some ethnic bias, but they are based on long standing anxieties about Chinese links with the Malaysian and Indonesian Communist parties, and the commitments of those organizations to revolutionary violence.

59. Malaysian security interests will be affected by instability in Thailand, especially because Malayan Communist guerillas operate in the northern states of the federation and use havens across the border in Thailand's southern provinces. Thailand cooperates with Malaysian forces against the guerillas, and if this cooperation ceased, because of disorders in Thailand,

the Malayan Communists would probably be able to develop large base areas on Thai soil for operations in Malaysia, possibly with assistance from China.⁶⁰

60. Malaysia has military links with Singapore, Australia, New Zealand, and Britain under a 1971 agreement with those states which permits the stationing of British, Australian, and New Zealand troops in the Malaysian-Singapore area. The United States has no formal military ties with Malaysia but is becoming this country's main source of defence equipment, under procurement arrangements that are leading to some standardisation between the armed forces of the ASEAN members. The connection with Malaysia is more distant than that with Thailand, and is based on a smaller degree of rapport, because of the Malaysian concern about China's commitment to the export of revolution. For Malaysia and for the USA, moreover, there is no urgency to expand the informal security bond, because the guerilla activities of the Malayan Communist Party represent a manageable threat, for the present, and the Malaysian administration is a stable and fairly representative government with a high degree of legitimacy.⁶¹

61. The Malaysian government has effective internal security services, staffed mainly by ethnic Malays who have communal antipathies towards the Chinese minority. The Malayan Communist movement recruits principally within alienated segments of this minority, and the security forces evidence strong motivations in their efforts to cope with Communist guerilla activities. If there were large scale external assistance for those guerillas from Thailand's southern provinces, however, the security capabilities of the Malaysian government would be overtaxed. Under the stresses of an expanding insurgency that administration would probably resort to harsh measures against Chinese communities in critical areas, thus in effect increasing the flow of recruits into the Malayan Communist movement.

62. At present the Malayan Communist movement is a relatively small organization, and it is endeavoring to gain strength. The potential for mobilizing support within the Chinese community is considerable, because that community experiences gross discrimination from the Malay dominated national administration.

This discrimination covers land ownership, certain professions, government service, and entry to the universities; it is intended to improve the economic position of the Malays, but their traditional culture frustrates this purpose, and the result of the discrimination is a dangerous polarisation of Malaysian society.⁶² The polarisation may well become more serious if the Malaysian authorities increase their discrimination in order to bring about some significant improvements in Malay living standards that will assure support for the dominant party, the United Malays National Organization.

63. Since political instability in Malaysia will affect Thailand and Indonesia the USA has incentives to encourage a more equitable Malaysian policy on the distribution of income and wealth, with emphasis on overcoming Malay cultural barriers to modernization. Such an emphasis is present in various US official and private assistance programs, but the urgent requirement is a reorientation of Malaysian government efforts towards engagement with the basic problem of Malay backwardness. This is an immediate imperative, because the Chinese community makes up nearly 50% of the population in peninsula Malaya, and the vigor of their industrial and trading activities is largely responsible for the country's high rate of economic growth. Further alienation of this community would produce an economic decline that would add to the revolutionary potential of a seriously polarised society.⁶³ The need to cope with the fundamental causes of Malay backwardness, moreover, is becoming more serious because of the activities of groups fostering a revival of Islamic extremism, with support from Middle East countries. The somewhat pragmatic communal orientation of the United Malays National Organization is challenged by the fundamentalist Party Islam; this is a small party, but it could become a potent force if there were an upsurge of Islamic fanaticism.⁶⁴

64. The implementation of Malaysian security policy is influenced by the nation's communal tensions. The opposition to Thai cooperation with China for the support of guerillas in Cambodia expresses fears that increases in Peking's involvement

in Southeast Asia will cause the Chinese in Malaysia to be more assertive. The conflict of interest with Thailand is not being resolved, because Malaysia has no appreciable leverage, and this situation tends to increase the importance of informal security ties which Malaysia has with Indonesia. These have developed on the basis of linguistic bonds and of affinities between the somewhat secularised Moslem leaders of the United Malays National Organization and the Indonesian military elite, whose Islamic culture has been mixed with early Indian and indigenous Javanese beliefs.⁶⁵

65. The current forms of defence cooperation between Malaysia and Indonesia comprise joint planning, the sharing of training facilities, and the staging of joint naval, air and military exercises. This collaboration is evolving in conjunction with the development of an informal military relationship between the United States and Indonesia, the largest member of the ASEAN grouping. Indonesia purchases military equipment from the USA, hosts a US military mission, and, together with Malaysia, sends officers to the USA for training.⁶⁶

66. US military support to Indonesia helps to maintain an army dominated government that has been in power since the mid 1960's. There is no major domestic threat to stability, and the US aid gives Indonesia some capability for a security role outside its immediate environment that could benefit Thailand and Malaysia. The Indonesian government has shown an interest in staging military exercises with Thailand, and also with the Philippines, but large scale procurements would be needed to support a projection of national power that would offset the Vietnamese threat to Thai border provinces. Indonesia is an oil exporting country, but its economic growth has been slow because of incompetent administration through most of the period since independence. The level of industrialisation is low, in comparison with that in Malaysia, and, although large flows of foreign investment are being attracted, the growth of manufacturing for export is hindered by administrative shortcomings, poor infrastructure, and high tariffs which raise production costs.⁶⁷

67. The ruling Indonesian military elite are modernizing nationalists, hostile to both China and the USSR because of memories of a threat posed by the Indonesian Communist Party during the first half of the 1960's, under the corrupt regime headed by former President Sukarno. The authority of the army was established in a chaotic situation that followed an attempted Communist coup in 1965. The army leadership has remained stable, and has made efforts to promote economic growth, with the help of oil revenues, but much of the initial goodwill of the country's intelligentsia has been lost by authoritarian measures and corruption. There has been little improvement in the welfare of the urban workers and the peasants, moreover, as the benefits of economic growth have gone mainly to the middle and upper classes.⁶⁸ For the present the regime's social controls are effective, and there are no indications that the Communist movement, which remains illegal, is recovering from the severe repression which it experienced in late 1965. The government's legitimacy however is negatively affected by its use of administrative powers to ensure a dominant position for its official political party in a weak legislative body, and its unwillingness to allow that party to evolve as an organization open to the articulation of popular demands. The degree of social alienation is considerable, and is probably tending to increase, because there are no indications of a shift towards democratic methods of rule, and the gap between rich and poor is widening.⁶⁹

68. The stability and functioning of the Indonesian administration are vital considerations for the USA, but interaction on these matters is evidently more difficult than with the Thai military leaders on their basically similar problems. The nationalism of the Indonesian rulers derives from a bitter colonial experience and has remained strong. The foreign community of businessmen, professionals, diplomats and international civil servants is smaller than in Thailand, and its socialising effects are weaker. The confidence of the Indonesian leaders in their capacity to maintain power,

moreover, is evidently high, while their Thai counterparts, having lived through a successful popular upheaval against military rule in 1973, are anxious to enlist extensive civilian support.⁷⁰

69. Indonesia's security problems, like those of the Philippines and Malaysia, are currently less urgent than Thailand's, which seem to have high priority in the USA's Southeast Asian policy. The Thai problems, it must be stressed, have major external dimensions, and on this account, they raise questions about the potential for developing a subregional community of states whose solidarity and cooperation could help Thailand achieve comprehensive security. The Association of Southeast Asian Nations, in which Thailand is associated with Malaysia, Indonesia, the Philipines, and Singapore, has made some progress towards the formation of an economic community, and, with strong external support, it could make further advances. This could happen in the context of a larger venture in regional cooperation, such as the formation of a Pacific Community. Some of the Association's members, however, fear that in such a community their unity would be weakened, and that this larger body would be dominated by the USA and Japan.

Pacific Economic Interdependencies

70. The United States is able to undertake extensive security responsibilities in East Asia because it has large economic resources, sufficient to sustain a vast military establishment. These resources comprise massive domestic industries and rich natural endowments that make possible considerable self reliance, but there is large scale trade with the rest of the world, and US based international firms draw great revenues from direct investments abroad. Japan is the main trading partner, and commerce with that country and with other Pacific states is larger than trade with Western Europe. There is a heavy concentration of US direct investment in Western Europe, but high growth rates in several East Asian countries are attracting more and more US capital to that area.

71. Extensive and complex interdependencies with other industrialised democracies are the main features of the USA's involvement in the international economy. The trade and investment flows have led to much intraindustry specialisation, a spread of advanced technologies across national boundaries, increases in intra-firm commerce and transnational production, and, thus, considerable vulnerability to changes in the monetary, industrial and foreign trade policies of all the major members of the Trilateral grouping, especially Japan. The USA has to manage its external economic ties with a tacit interest in preventing the formation of strong coalitions between its major trading rivals. The leading European Community members, however, seeking to overcome slowdowns caused by high oil prices, are tending to become more protectionist towards the outside world and more concerned with fostering trade within their grouping, and are endeavoring to find ways of reducing their dependence on the US dollar as an international currency.⁷¹ For the United States, therefore, the potential utility of economic cooperation with Japan is tending to increase.

72. The USA's economic bonds with the European Community are not connected with US security involvement in the Pacific, except in so far as economic resources drawn from Atlantic commerce and investment help to sustain the expenses of US defence engagement in East Asia. With respect to that engagement, the economic interdependencies of immediate significance are those with Japan. US-Canadian economic ties are also important in this context, because Canada has Pacific as well as Atlantic interests.

73. The United States, Japan, and Canada manage their interdependencies bilaterally. These interdependencies are large, and are measurable by volumes of trade and transnational production as proportions of gross national products. Rises in levels of interdependence are facilitated by the reduction of barriers to trade and investment flows, but if there are unequal gains they tend to activate protectionism, as has been evident because of deep Japanese sectoral penetration of the US market.

74. The capacities of states to manage interdependencies depend very much on their domestic political structures, and on their size, resources, and levels of industrialisation. Japan has major advantages over the USA and Canada because of the much greater degree of integration in its political economy, which is sustained by a broad policy consensus based on successes in export led growth. Acute resource deficiencies, however, make Japan heavily dependent on foreign trade, and obligate expansion of the nation's industrial establishment into resource rich countries. In terms of industrial productivity Japan has drawn ahead of the USA, but the United States retains great advantages because of its size and endowments. These advantages assume much significance in negotiations on trade issues, but politically the United States is disadvantaged by the very active pluralism of its decision processes, which hinders the evolution of a coherent foreign economic policy.⁷²

Japan-US Interdependencies

75. Japan has become the USA's main trading partner, as a consequence of rapid economic growth that began after a postwar recovery. Roughly 13% of the USA's imports come from Japan, and approximately 10% of the USA's exports go to that country. The United States takes about 25% of Japan's exports and supplies nearly 20% of Japan's imports. For Japan this commerce represents more than half of its total trade with the industrialised countries, while for the USA it amounts to almost one fifth of the commercial interchanges with those countries. The contrasts reflect a greater international spread in the USA's foreign commerce, and Japan's difficulties in penetrating the European Community market. Because of these factors, and the contrasts in shares of each others trade, as well as because of differences in size, the United States is in a position to exert much leverage on Japan. US pressures are applied to redress a large trade balance in Japan's favor, although this balance is offset by a substantial excess of exports over imports in US trade with

the European Community. The current increases in European protectionism tend to intensify US pressures on Japan for wider access to its market. The basic interests of the USA, however, call for wide ranging cooperation with Japan.⁷³

76. Japan depends heavily on the US market for sales of its manufactured products, while importing from the USA agricultural items, nonagricultural commodities, chemicals, and machinery and transport equipment. A high proportion of these imports could be procured from other industrialised countries, but they could not be expected to accept imports of Japanese manufactured products on a scale that would compensate for any reduced access to the US market. For the USA, Japan is an important market, almost as significant as the three core European Community members together, and is growing rapidly while the West European states are tending to stagnate. There is a perceived potential for major increases in exports, because of Japan's large trade surplus each year with the USA. Japan's overall trade however has been in deficit over the past few years-about \$11 million in 1980. The largest items in each deficit have been heavy payments for oil imports, and the high prices for oil, in the Japanese view, have been due in a large measure to strong US demand, and to the failures of US administrations to implement an effective energy policy. An important aspect of the interdependence between Japan and the USA is that Japan has a strong interest in seeing the United States reduce its dependence on imported oil and lower its high interest rates, which push up the value of the US dollar, and, thus, the cost of oil.⁷⁴

77. Production interdependencies resulting from flows of direct investment between Japan and the USA are not as high as those in the Atlantic relationship. Manufacturing in Western Europe by US based international firms is on a much larger scale than deliveries of US goods to West European markets through normal trade, and West European direct investments in the USA are also very substantial in relation to trade flows. US direct investments in Japan are moderate, and are growing slowly after a fairly recent liberalisation of Japanese government restrictions. Japanese direct investments in the USA are also moderate, despite

the greater openness of the US economy. Cultural and other factors limit the transferability of Japanese production and administrative methods.

78. Japanese direct investments in the USA represent about 6% of total foreign direct investment in that country, ranking after West Germany (9.6%) Canada (13.3%) Britain (18%) and Netherlands (23.8%). The value of Japanese direct investments in the US at the end of 1979 was \$3441 million, and the total value of foreign direct investments in the USA was \$52,260 million.⁷⁵ Roughly 25% of the Japanese direct investment is in manufacturing, and about 70% is in commerce, finance, and other nonmanufacturing ventures. The volume of Japanese direct investment is increasing rapidly. The proportion going into manufacturing does not appear to be changing significantly, but is expected to over the next decade because of increasing protectionist pressures in the USA and the attractions of US resource endowments for heavy Japanese industries whose managements are willing to locate plants in the United States.

79. US direct investments in Japan, although encouraged since the late 1960's by a liberalisation of Japanese policy, tend to be discouraged by cultural factors which hinder penetration of the closely knit networks of Japanese production and trade. At the end of 1978 US direct investment in Japan amounted to \$5,800 million, of which \$2,700 million was in manufacturing.⁷⁶ Japan ranks ninth among the countries attracting US investment, after Canada, Britain, and the founding members of the European Community.

80. For the present there is little interaction between the USA and Japan on investment issues, but there are frequent interchanges on trade questions, initiated mainly by the USA, on account of the large trade imbalance and the drastic effects of certain Japanese exports, especially cars, on US industries. To redress the trade imbalance the USA exerts pressures to gain wider access to the Japanese market, push the Japanese administration into expansionary policies that will increase internal demand, and secure "voluntary" limitations on certain Japanese exports. Continuing inflation within the USA, however, attributable in a large measure to heavy deficit spending, tends

to sustain strong consumer demand for Japanese products,
including cars.⁷⁷

81. The recent history of Japanese-American efforts to manage the trading relationship has demonstrated that the USA has a capacity to induce some liberalisation of Japanese import restraints and Japanese acceptance of some limitations on exports, but understandably cannot persuade the Japanese administration to adopt expansionary policies, which have been largely responsible for the USA's own inflation.

82. The most fundamental problem that has become evident in US-Japan trade interactions is related to the divergence on growth. The pace of Japan's growth, which is likely to remain high because of the vigor of the nation's very functional government-industry partnership, and its high investment levels and rates of technological advance, tends to result in superior trade performance.⁷⁸ This affects the willingness of trading partners to maintain an open international economy, as the less efficient industries of those partners suffer, thus generating demands for protectionism. Japan needs broad understandings with major trading partners that will allow scope for agreed market specialisation, but has to bargain from a relatively weak position in dealing with the USA and the European Community, because of resource deficiencies. Pending the development of satisfactory rapport with major trading partners, Japan has strong incentives to draw maximum advantages from export opportunities as they become available, through deeper penetration of established markets and entry into areas where commerce has been restricted by political factors or underdevelopment. Moreover, even if suitable rapport with major trading partners can be anticipated, Japan has a need to overcome its resource deficiencies as much as possible through vigorous contributions to complementary growth in nearby developing countries with rich endowments. Efforts are being made to meet this requirement through vast multigroup technology exports in return for assured raw material supplies, and, in East Asia, Indonesia is attracting most of this investment.

83. For the present, bargaining on trade issues between Japan and the USA is narrowly focused, short term, and intensely competitive. The interaction has these characteristics because of the pluralism of the US policy process, which is responsible for rather incoherent incrementalism, reacting to domestic pressures. From the Japanese point of view it would be desirable to move to more holistic, longer term, integrative bargaining, and to expand this into a larger setting, in which the USA's advantages of size and resources would be balanced by the involvement of other states that would have some identity of interests with Japan, and towards whom the USA as well as Japan would be significantly accountable. For the USA the acceptance of such increased interdependence with Japan and with other states would help to place the main Pacific trading relationship on a firmer basis, reducing the risk of economic disturbances being transmitted through that relationship. The USA, moreover, would then be in a much stronger position to interact with the European Community.

Canada's Interdependencies

84. The issues of managing the complex economic relations between the USA and Japan raise questions about interdependences in the North American context. The USA's exports to Canada are about 75% greater than its sales to Japan, and its imports from Canada are about 60% greater. There is a high level of production interdependence, resulting from large flows of direct investment, especially from the USA into Canada. Canadian trade with Japan is small - about 1/8th of the USA's, but, for Canada, Japan is the most important market after the USA.⁷⁹ Canada is very heavily dependent on trade with the United States, and, for increasing diversification of its foreign commerce, has to look mainly to Japan, in view of that country's needs for fuels and raw materials.

85. The level of trade interdependence between Japan and Canada is low, but there is a significant potential for growth, depending mainly on Canada's willingness to export coal,

uranium, minerals, and agriculture products. Production interdependencies between the two countries are small, as the investment flows each way have been sluggish.⁸⁰ There is, however, a convergence of interests because both Japan and Canada have to bargain on economic issues with the USA from disadvantageous positions. This is given little recognition because the social distances between Japan and Canada remain very great. Hence the evolution of a more cooperative relationship between Canada and Japan that would be significant for their dealings with the USA would probably require much active Canadian diplomacy. This could be resented by the USA if it were aimed simply at the formation of an anti-US coalition, but it would no doubt be acceptable to the United States as an endeavor directed towards the formation of a Pacific economic grouping.

86. Canada has important cultural ties with Western Europe, but Canada's capacity to manage economic relations with the USA is being weakened by the disappearance of opportunities to influence European Community members bilaterally, since these members are beginning to manage their external relations collectively, and with significant degrees of cohesion. In the recent past it was possible for Canada to enhance its standing with the USA through utilizing its modest potential for interaction with West European governments, but now the loss of this advantage raises questions about the possibilities for acquiring a stronger international position through the development of ties with other major states in the Trilateral grouping.⁸¹

87. Trade between the USA and Canada is being increasingly liberalised, under the provisions of the 1979 Tokyo Round of GATT negotiations. Within a few years about 65% of US exports to Canada will enter duty free, and about 80% of Canada's exports will enter the USA free of duty. The United States will benefit disproportionately and Canada will have little opportunity to influence the course of future multilateral trade negotiations. Canada, moreover, will have little capacity to restrict or manage the trade, while Japan and the European Community members will retain and will probably increase their significant capabilities for trade management through the use of nontariff barriers,

while complying with the current GATT requirements for tariff reductions.⁸²

88. Canada's capacity to bargain on global economic issues derives some strength from association with the hopes of Third World states for reform of the international trading and monetary institutions, and for increased foreign aid. In the Pacific context Canada's ties with the ASEAN members are especially important, and are being strengthened through economic assistance, trade, and direct investment. There are indications that Canadian involvement in the area is welcomed, especially because of government and private sector desires to avoid heavy economic dependence on the USA and Japan.

Pacific Economic Dependencies

89. Proposals for the formation of a Pacific community are based not only on the logic of managing interdependencies but also on imperatives to manage dependent relationships in which East Asian modernizing states are endeavoring to finance industrialisation through trade and the attraction of direct investment. These states, with the exception of the oil producers, have to bargain on commercial issues with Japan and the USA from weak positions, because of their underdevelopment and small size. Major questions of equity are posed by the situations of these states, and regional security issues become linked with these questions because the difficulties of modernization in these nations give rise to social tensions that can be manipulated for political violence.

90. South Korea, Taiwan, and Singapore are rapidly industrialising states that export significant quantities of manufactured goods and that avoid heavy product or geographic concentration in their foreign commerce, but that need continued foreign direct investment to sustain industrial progress. The most important foreign economic relations of these countries are their dependencies, but they are more manageable than those of many other developing countries.

91. Malaysia, Thailand, the Philippines and Indonesia, members of the Association of Southeast Asian Nations (together

with Singapore) are less industrialised, and more dependent in their external economic relations. Large proportions of their foreign exchange earnings are derived from sales of primary products, and they are more urgently in need of foreign direct investment to make up for low rates of domestic investment. In addition, they have to rely heavily on the utilisation of foreign managerial and technical skills.

92. For economic growth and diversification both groups of countries, especially the four ASEAN members, need scope to further expand their exports of manufactures. The terms of trade for their primary products (excepting oil) tend to be unfavorable, and these products, as well as their manufactures, encounter discriminatory treatment from the advanced countries, especially through the use of nontariff barriers. To promote industrialisation foreign direct investment is attracted, but, especially in Thailand, the Philippines and Indonesia, this tends to be done with concessions that draw firms into production for the local markets behind high tariff walls, rather than into production for export. Social and economic costs result, because of exploitation of the local markets, and large remittances of profits, and also because of administrative pressures to hold down wage levels.

93. Dependence relationships, as the history of Latin America attests, can be manipulated by powerful advanced states, especially by providing military aid to strengthen the security forces of client authoritarian regimes while they provide cheap labor for foreign firms. In East Asia, South Korea, Taiwan, and the ASEAN members are not subjected to such manipulation, but their dependencies tend to slow their growth, perpetuate social inequalities, produce imbalances in their economies, and incline them to accommodate with the demands of international firms..

94. Of the states in the more advanced East Asian group Taiwan is the most heavily dependent, for political as well as economic reasons. Derecognition by the USA has resulted in derecognition by many other states and has posed uncertainties that have adversely affected trade and the attraction of foreign investment. Japan and the USA are the island's main trading

partners, but commercial interest in both states is strongly influenced by estimates of trends in the US administration's policy, which can be only short term.⁸³ In the longer term, if there is political stability and significant economic progress in mainland China, and if Peking remains hostile to the USSR, US and Japanese business interest in Taiwan will probably decrease, because of perceptions of opportunity in dealing with the mainland, and anticipations that Peking will resort to economic and other pressures in order to assert control over Taiwan. Outside investors and the Taiwan government have to allow for the contingency that a US administration, through neglect, or adopting various pressures, may endeavor to push Taiwan into an accommodation with Peking.

95. Taiwan is heavily dependent on trade with the USA: exports to that country in 1980 amounted to \$6750 million (34% of the total). Exports to Japan were valued at \$2160 million (10.9% of the total) but Japan was the main source of supply (\$5350 million, or 27% of total imports). Most of the imports were plant, equipment and materials for Taiwan's industries, financed to a large extent by exports of light industrial products to the USA.⁸⁴ Taiwan trades on a significant scale with West European countries, especially West Germany, and also with several East European states. In addition, there is believed to be some trade with mainland China, through Hongkong.

96. Direct investment in Taiwan comes mainly from the USA (44%) and Japan (30%). At the end of 1979 total foreign direct investment amounted to \$1510 million. Efforts are being made to draw more foreign direct investment, to strengthen the island's export oriented industries, and to increase the interest of the industrialised democracies in Taiwan's survival as an independent state.⁸⁵

97. South Korea ranks next as a very dependent East Asian state at a relatively advanced level of modernization. Heavy reliance on US military protection places South Korea in a weak

position, and the potential vulnerability is considerable as about 25% of South Korea's exports are sent to the USA, and the United States supplies about the same proportion of this country's imports. South Korea trades on a somewhat larger scale with Japan, and experiences relatively large unfavorable balances in this commerce. Other industrialised countries accept about 1/6th of South Korea's exports, and overall trade with the Trilateral grouping is normally in deficit, on account of the discrimination of this grouping against manufactured products from the developing states.⁸⁶

98. South Korea draws more foreign direct investment than Taiwan, and this comes principally from Japan and the USA. Japanese investment, about 20% of the total, was approximately one billion dollars in 1978, and US investment amounted to somewhat less. The total volume of direct foreign investment is small, in comparison with the flow into other developing countries (less than 2% of fixed capital formation) and, because of South Korea's external security problem, no major increases are anticipated. Relying rather heavily on the state's own resources, however, South Korean administrations have promoted rapid industrialisation, expanded foreign trade, and maintained high overall growth rates while ensuring considerable equity in distribution. Much of the industrialisation has been export oriented: manufactured products now constitute about 70% of total exports; and nearly 40% of the GNP is accounted for by exports of goods and services. Through the 1970's real annual increases in GNP averaged 10%. In recent years important contributions to the high rate of growth have resulted from increases in exports to Western Europe and ambitious construction ventures in the Middle East. Meanwhile the level of trade dependence on the USA has been decreasing, and on present indications will drop below 20% over the next five years. Trade and production links with Japan however are tending to grow: imports of capital goods and technology intensive products from Japan are increasing, and there is growing intra-industry specialization in trade between the two countries. Because of

protectionist barriers, Japan's share of South Korea's exports has been decreasing as a proportion of the total over the past half decade but may well rise, because of advances in industrialisation, the inflow of Japanese capital, vigorous export promotion, and the present growth of protectionism in Western Europe.⁸⁷

99. Singapore, although a small political economy, is the least dependent of the more advanced modernizing open market East Asian states. The foreign commerce of this island nation is quite diversified, and, while it attracts large flows of foreign direct investment, these come from widely scattered sources. The total volume of foreign commerce is larger than South Korea's, but this includes considerable entrepot trade, much of which is handled on behalf of firms operating in Malaysia. Exports to the USA are about 1/8th of the total, and slightly less than exports to Malaysia. Exports to Japan amount to about 1/13th of the total, and exports to other Asian countries, including Malaysia, are about four times greater than South Korea's. Sales to the industrialised countries as a whole however are about 20% less than South Korea's, and this reflects the larger size of the South Korean industrial establishment.

100. In 1980 Singapore's exports totalled \$19,377 million, of which Malaysia's share was \$2908 million. Exports to Indonesia are estimated to have been at least 1/3rd of this amount, while sales to Thailand reached \$844 million and, to the Philippines, \$273 million. Altogether Singapore's trade with the other ASEAN states is larger than that of any of the other members, and the island's importance as the major trading center of ASEAN is tending to increase, because of its location advantages for international firms operating in Southeast Asia. The most important of these advantages is an efficient administration, and, under strong leadership, this administration is able to extract significant economic and social benefits from direct foreign investment.⁸⁸

The Larger ASEAN Members

101. The other ASEAN states have lower levels of industrialisation than those of Singapore, South Korea, and Taiwan, their foreign exchange is earned mainly by exports of primary products, and they tend to attract foreign investment into established patterns of import substituting industrialisation. This however is less true of Malaysia than of the authoritarian regimes in the Philippines, Thailand, and Indonesia.

102. Malaysia's foreign commerce has a significant geographic spread, compared with Philippine and Indonesian foreign trade; exports to Japan and the USA, the main trading partners of the ASEAN group, are less than 40% of the total. Despite Malaysia's small size, moreover, its exports are more than double those of the Philippines, and a larger proportion are sent to Western Europe; further, within ASEAN, Malaysia's trade is much larger than that of the Philippines. Malaysian exports in 1980 totalled \$13,000 million, of which \$7,725 went to industrialised countries. About 60% of Malaysia's total exports are sales of rubber, tin and palm oil, in proportions that reflect less product specialisation than the Philippines, whose export revenue is significantly dependent on sales of sugar (25%).⁸⁹

103. The flow of foreign direct investment into Malaysia has approximately equalled that into the Philippines and is roughly double that in Thailand. Total direct foreign investment in Malaysia at the end of 1974 was \$1350 million, compared with \$1100 in the Philippines, and in the Malaysian case this represented about 50% of total domestic capital investment, that is about 10% less than the corresponding amount in the Philippines. The sources of direct foreign investment in Malaysia were quite diversified, compared with those in the Philippines, where most of the foreign capital is from the USA.⁹⁰

104. The Malaysian administration, because of a relatively high degree of institutional development, and responsible leadership, maintains a significant level of achievement in the management of its trade and production dependencies.

A growth rate (about 8.5%) several points higher than those in the Philippines and Thailand is sustained, per capita GNP is double those in the other two ASEAN members, and heavy external indebtedness has been avoided - a major contrast with the Philippines.

105. Philippine export performance has been poor, and the serious balance of payments problems that have resulted have necessitated heavy international borrowing, which has pushed the national debt to about \$12,000 million, and is raising this annually by about \$2,500 million. Foreign exchange earnings, which must service this debt, depend heavily on exports of sugar, especially to the USA. Exports of manufactures are small - about 15% of total manufacturing output - and total production of manufactured goods is increasing only at about 7%, which is little more than half the rate in Malaysia.⁹¹

106. Social unrest is tending to develop because of slow growth, extensive unemployment, inequities in distribution, and the use of arbitrary power. Government authority is maintained with the support of the armed forces, which receive US military aid, including grants and military sales credits. This aid is given principally in return for the use of military bases in the Philippines. US interests, therefore, are more deeply involved than they are in the other ASEAN countries, and thus could be more seriously affected by any social upheavals.⁹²

107. The problems of dependent economic growth in the Philippines require remedies which can be suggested from the experiences of more rapidly advancing East Asian states. There is a need to attract foreign direct investment from a wider range of external sources, especially Japan, and clearly a large proportion of this must go into export oriented manufacturing. The high protectionist barriers which provide a sheltered market for foreign firms now operating in the country must be reduced, but at the same time domestic firms seeking to develop manufacturing capacities for export must be aided. Meanwhile commercial ties with East Asian neighbours must be strengthened; Philippine economic bonds with other ASEAN members are weak, and Philippine exports to other Asian countries are less than one quarter of Malaysia's

108. More responsible management of the problems of dependent growth is evident in Thailand, where the US economic presence is smaller, and where the ruling military elite show considerable awareness of social obligations, observe restraint, seek popular cooperation, and endeavor to promote modernization in the general interest. This elite's methods of rule have been influenced by memories of the mass revolt against a rather corrupt authoritarian regime in 1973, and by awareness that any social tensions generated by repressive behavior could provoke further upheavals.⁹³

109. Thailand's exports are somewhat larger than those of the Philippines, but the shares of the two main trading partners are smaller. Total exports in 1980 amounted to \$6406 million, of which the US share was less than 1/6th, and the Japanese share was slightly higher, but was increasing relative to that of the USA. Together these two shares were almost equalled by sales to the European Community, which were about 50% greater than those of the Philippines to that market. Over the past decade Thai exports have been increasing more rapidly than those of the Philippines, and a higher rate of economic growth has been maintained - 7.5% compared with 4.8% - despite a smaller inflow of foreign direct investment. A considerably higher rate of domestic capital formation has been achieved, and this has been partly responsible for keeping the increases in manufacturing well above those in the Philippines. Thai manufacturing for export, however, is still on a small scale, especially because much of the foreign direct investment has gone into production for the domestic market, which is heavily protected by tariffs and nontariff restrictions. Significant efforts are now being made to regulate foreign direct investment and guide it into designated industries, and to protect national firms. An increasing movement of Japanese investment into firms producing for export to the Japanese market is evident, but a large unfavorable balance is persisting in Thai trade with Japan. Trade with the USA is also showing a steady deficit. These imbalances however are partly offset by surpluses in trade with the European Community; these have been growing since 1976, and in 1980 the favorable balance was more than \$700 million.⁹⁴

110. The primary products which constitute most of Thailand's exports are subject to severe fluctuations on the international market, and, while contending with these, Thailand has to cope with high prices for imported oil. Thai exports to the oil producing countries however are about three times larger than those of the Philippines, and the Thai deficit in trade with those countries tends to be no larger than the favorable balance in trade with the European Community. The growth of Thai manufacturing for export depends rather heavily on the attraction of foreign direct investment. This is hindered by insecurity in the northeastern provinces and proximity to Indochina, but Thailand benefits from relatively competent economic management and from location advantages associated with a fast rate of economic growth.

111. Indonesia's problems of dependent growth differ in some respects from those of Thailand and the Philippines. Large revenues from oil exports support infrastructure development, the operation of state enterprises, the import of food to meet shortages, and the servicing of international debts. Administrative incompetence and corruption, however, are even more serious problems than in the Philippines, and there is heavy managerial dependence on international firms. Foreign investment is drawn mainly into extractive ventures; manufacturing for the protected domestic market, despite its size, is less attractive, because of the poor quality of the administrative services. Manufacturing for export is on a small scale, as it is made difficult not only by administrative failings but also by high production costs, caused by heavy protectionism and high inflation.

112. The dependence on revenue from oil exports is excessive, and entails considerable vulnerability. Oil sales account for about 70% of the nation's exports, and the remaining export items are mostly primary products that are subject to severe fluctuations on the international market. Geographically, moreover, Indonesia's export trade needs diversification. Exports totalled \$22,564 million in 1980, but roughly half went to Japan, and about 20% to the USA. Sales to the European

Community were only slightly higher than Thailand's.⁹⁵

113. Foreign exchange earnings from oil are now on a plateau, and have an uncertain future, because exploration has been slack in recent years. The development of manufacturing for export is thus becoming more urgent, but it will require vigorous administrative guidance of at least some of the large inflow of foreign direct investment. The largest volume comes from Japan, reaching a total of \$3739 million in 1978, but a high proportion of this is intended to meet Japan's requirements for basic resources. US direct investment, which by 1978 had amounted to \$1005 million, is also largely concerned with resource extraction. Manufacturing enterprises in Indonesia have to expect strong competition from more industrialised developing states when attempting to penetrate markets in the Trilateral grouping, but there may be significant growth by Japanese firms producing in Indonesia for the Japanese market. Manufacturing for export could be stimulated by movement towards the formation of a common market within the Association of Southeast Asian Nations, although this would pose problems for the present high cost manufacturing firms - a prospect that has been responsible for Indonesian reluctance to accept measures for trade liberalisation within ASEAN.

114. The current pattern of economic growth, while imbalanced by the emphasis on resource extraction, has heavy social costs. Downward pressures on wages permit much exploitation by foreign and domestic firms. Agricultural development, meanwhile, is seriously neglected, although this necessitates large food imports, and imposes severe deprivations on the lower strata of the population.⁹⁶

115. Social discontent resulting from the negative aspects of Indonesia's economic performance is suppressed, and this encounters moderate criticism from independently minded members of the intelligentsia and from the small nongovernment political parties, which are under constant duress. The growth of an extensive organized opposition would be difficult, but the shortcomings of the ruling group may challenge idealistic military leaders to seize power and institute reforms. At present that group is not very open to domestic suggestions for better government performance

that might revive the legitimacy that it enjoyed when it replaced the Sukarno regime in the 1960's.

Dependency Problems

116. Discussions of third world political instability in the literature on strategic studies make few references to problems of dependent economic growth. One of the main reasons for this is that most of the military aid to developing states is based on "arm's length" alliances in which the advanced states that assume protector roles seek only limited identification with the policies of their Third World allies.

117. Problems of dependent economic growth are linked with many of the problems of political stability in the developing areas, and they must be considered when examining connections between the foreign economic and defence policies of major industrialised democracies. The management of dependent economic growth by developing states can be helped greatly if they form regional economic communities, as they can then bargain more effectively with major industrialised democracies and with international firms based in those democracies.

118. The modernizing open market East Asian states depend heavily on revenue from exports of primary products. International demand for these products is unstable, and the terms of trade tend to be unfavorable, because of the weak bargaining positions of these and other developing countries, and because a significant proportion of the marketing is handled by branches of international firms that seek cheap resources. The foreign involvement in marketing can be reduced only if there are efficient indigenous firms with adequate international connections, and if there is sufficient administrative will and competence to promote shifts of ownership from foreign firms. There may be strong executive determination to effect change, of course, but it may be exercised with much restraint because of desires to avoid discouraging foreign investment. Such restraint may often seem imperative because many foreign firms have vast

financial resources, and the high level of their managerial skills together with the global reach of their business connections can discourage hopes of building up national enterprises with similar capabilities.

119. South Korea and Taiwan have demonstrated considerable skill and resolution in managing their trade dependencies, especially by exporting primary products at higher levels of processing, entering new markets, and promoting export oriented manufacturing by national firms. Taiwan, however, because of the political effects of the US switch to cultivating mainland China, is confronting difficulties in its attempts to expand its foreign trade, and is in a weak position when bargaining with international firms on terms of entry into its economy.

120. Singapore's trade dependencies have been changed by drawing much foreign direct investment into manufacturing for export. The principle cost has been limited growth of the indigenous manufacturing sector, from which entrepreneurial skills have been absorbed by international firms as these have consolidated their positions in the local economy. Malaysia is gradually changing the composition of its foreign trade by promoting exports of manufactures, but remains quite vulnerable to shifts in international demand for primary products, especially rubber and tin.

121. Philippine and Indonesian dependence on exports of primary products is heavy, and is accompanied by heavy dependence on foreign investment in manufacturing and extractive industries. The economic costs offset the benefits for each economy, as the foreign firms take advantage of their opportunities to make substantial profits and limit their taxes. The interests of these firms, moreover, tend to hinder reform of the economic administrations in each country.⁹⁷

122. South Korea's achievements demonstrate, for Indonesia and the Philippines, the vital importance of building up a competent bureaucracy and stimulating the development of entrepreneurial skills in order to engage with problems of growth under the constraints of economic backwardness, small size, and insufficient access to the markets of the industrialised

countries. The South Korean path of development also indicates a growth strategy appropriate for wider adoption: concentration on low technology manufacturing for sales in advanced economies that are moving into high technology manufacturing, but with an increasing development of heavy and chemical industries, aided by Japanese investment.

123. The development of low technology manufacturing, however, will not be sufficient to secure appropriate access to the markets of the industrialised countries if they continue their protectionism. The formation of more open markets by the ASEAN states, starting with their own grouping, will thus seem increasingly desirable. In addition it will be to their advantage to evolve an increasingly comprehensive pattern of economic cooperation with Japan, with emphasis on intra-industry specialisation. This, it seems clear, will have to be sought collectively, rather than through bilateral arrangements, as the protection of their common interests will require group bargaining power.

124. A lack of solidarity within ASEAN hinders the efforts of its members to improve their terms of interaction with international firms and the governments of industrialised democracies. Increased unity within the Southeast Asian grouping would facilitate more equal bargaining with the USA and Japan on trade and investment issues, and could induce those two states to seek comprehensive understandings for economic cooperation with the ASEAN members. Progress could thus be made towards a regional community in which the problems of dependent economic growth would be resolved, possibly on the basis of an improved version of the Lome II Agreement, under which European Community members aid development in certain African, Caribbean, and Pacific states, while helping to stabilise their export earnings.⁹⁸

Pacific Economic Cooperation

125. The interdependencies and dependencies between Pacific states require comprehensive multilateral management. At present engagement with these is very limited, incremental, episodic, and

unequal. The interaction occurs within two major interpenetrating networks of bilateral relationships. Japan is at the center of one of the major networks of bilateral links, and is responsible for relatively more coherent and productive interaction than that in the other major network, which is centered on the USA.

126. Substantive bilateral dealings between Japan and the open market economies of East Asia and North America have evolved with the expansion of Japanese trade, and the spread of Japanese direct investment. A similar process has been evident in the growth of the USA's dealings with Pacific trading partners, but this has been influenced by military relationships, although not as a result of comprehensive efforts to combine forms of economic and military cooperation. International firms based in Japan and the USA have been increasingly prominent in the development of trading relationships in both patterns, and interactions between these firms and their host governments have been adding more and more complex dimensions to the state to state relationships.

127. In the two patterns of bilateral relations centered on Japan and the USA the interactions mainly concern trade. Trade issues are raised by the developing Asian countries because of their interests in securing reductions of the barriers which limit sales of their products to Japan and the USA. The effective levels of protection maintained against such products from developing states, especially by the USA, are high. Japan and the USA trade with the modernizing open market East Asian states on the basis of GATT agreements regarding commerce with all Third World countries, utilizing gaps and inadequacies in those agreements with respect to tariffs and a wide range of nontariff barriers. The East Asian trading partners, bargaining individually, have little leverage because of their small size and their relative underdevelopment. For these partners, moreover, the problems of access to Japanese and US markets are complicated by the involvement of international firms in their economies, especially as many of those firms are concerned only with exploiting their local markets.⁹⁹ The central managements of those firms in the USA and Japan often wish to preserve forms of protectionism that help to maintain their oligopolistic

positions in their home countries. Involvement in the political processes of those home countries, in order to reduce protectionism, is of course virtually impossible for the small developing East Asian trading partners.

128. The ASEAN members, it must be stressed, could acquire a significant capacity for collective bargaining with Japan and the USA. This would necessitate a consensus on basic common interests which at present receive inadequate attention. Indonesia, the largest member and the most appropriate candidate for leadership, has distinctive interests as a major oil exporter, and, because of its large oil revenues and the small size of its industries, is less immediately concerned with Japanese and US protectionism against manufactured products. Malaysia, with a stronger position in world trade than Thailand and the Philippines, is not experiencing the trade imbalances which hamper their economic growth.

129. Within ASEAN there is a general commitment to liberalise trade, but there has been very little progress in this direction. The heavily protectionist policies of the Philippines, Indonesia and Thailand are sustained by administrative preferences and by established commitments to import-substituting industrialisation.¹⁰⁰ The basic logic of promoting more rapid growth through progress towards a common subregional market is therefore not sufficiently persuasive.

130. The fairly high levels of dependence on foreign direct investment raise questions about the desirability of a common regulatory policy within ASEAN, but this cannot be sought because of the lack of solidarity within the grouping. Each member implements its own policy on foreign direct investment. As formulated, most of these policies express determination to lower levels of foreign control in existing enterprises while guiding new investment into joint ventures, within preferred industries. Because the imperatives to attract foreign direct investment are strong, however, the declared policies are interpreted flexibly, especially in the Philippines and Indonesia.

131. The development of industrial complementarity is a matter of occasional interaction within ASEAN. In 1976 the ASEAN Heads

of Government agreed to study the feasibility of establishing five major industrial projects: urea fertiliser plants in Indonesia and Malaysia, a phosphate fertiliser plant in the Philippines, a diesel engine plant in Singapore and a rock-salt soda ash project in Thailand. Several years later Japan offered \$1000 million in loans to support the projects, subject to confirmation of their viability, and support for each by all the ASEAN members, but negotiations within ASEAN have failed to produce agreement about the financing of the projects and the preferences to be given to their products by the member states. The fertiliser plants in Indonesia and Malaysia and the rock salt soda ash project in Thailand have been approved by the ASEAN Economic Ministers but it has been difficult to reach agreement over the diesel engine plant proposed for Singapore.¹⁰¹

132. Private sector groups from the member countries, meeting regularly under ASEAN auspices, provide some impetus for collective deliberations by their governments on questions of trade liberalisation and industrial complementarity. The attitudes of these administrations however are cautious and somewhat distrustful. Inputs supportive of private sector proposals for more extensive economic cooperation, moreover, are not forthcoming in strength from the ASEAN Secretariat, located in Indonesia. This organization has been assigned a very modest role by the member governments.¹⁰² A pattern of intergovernmental consultations is developing, but these do not appear to be very active, and are not likely to foster consensus on the desirability of moving towards market integration and a common design for industrial growth. Officials in the trade, industry, and other branches of the ASEAN administrations, especially in the Philippines and Indonesia, are rather strictly subordinated to their executives, and have little scope for independent judgement and initiative.

133. Some efforts have been made by ASEAN to relate as a group to Japan, the USA, and the European Community. The results have been occasional dialogues, which have not led to substantive negotiations. Dialogue with Japan was partly responsible for the Japanese offer of aid in support of the five industrial

projects, which, although made in 1977, has not yet been taken up because of the lack of agreement within ASEAN concerning those projects. Dialogues with the European Community and with the USA in 1978 did not lead to any additional offers of support for the five projects, but contributed to increased US awareness of ASEAN's potential significance. The contacts with Japan and the USA during that year prepared the way for a meeting of the Japanese and US foreign ministers with ASEAN government leaders at Bali in 1979. Australia and New Zealand were also represented, and this meeting set a precedent for consultations on broad Pacific issues.¹⁰³

Regional Cooperation Proposals

134. Although ASEAN has not become a vigorous subregional grouping its activities have stimulated interest in the possibilities for regional economic cooperation on a larger scale, involving not only the ASEAN members but also Japan, the USA, Canada, South Korea, Taiwan, Australia and New Zealand. The opportunities for such cooperation have been given quite active consideration by several Japanese administrations, and, at the transnational level, by a network of business organizations in the Pacific Basin Economic Council. Intellectual leadership in the development of proposals for regional cooperation has been provided by Japanese, US, South Korean, Thai, Philippine and Australian scholars, bureaucrats, businessmen and politicians.

135. Papers delivered at conferences sponsored by the Pacific Basin Economic Council and smaller associations with similar outlooks have set out a fairly comprehensive case for building up a permanent organization to promote regional economic cooperation. The advocates of this arrangement, including Okita, Patrick, Drysdale, Krause, Kojima, and Akrasanee, stress the magnitude of the interdependencies and dependencies linking Pacific states and the inadequacies of their present patterns of bilateral relations.¹⁰⁴

136. The economic bonds between Pacific states are large, and are expanding rapidly because of high growth rates. This is

stressed by several scholars, especially Krause, and the evidence relates principally to Japan, South Korea, Taiwan, and some ASEAN members. Most of these states have attained growth rates averaging roughly 7% a year, while the West European economies have been advancing at a relatively slow pace.¹⁰⁵ The US economy has also been growing slowly, but the USA has been expanding its commerce with the open market East Asian states. Meanwhile those states have been increasing their foreign trade very rapidly, and the shares of most of their Pacific partners in this trade have been rising.

137. Because of their high growth rates and expanding trade, the open market East Asian economies are becoming more vulnerable to changes in each other's policies and performance, and existing problems resulting from insufficient complementarity and diverging policies are tending to become more serious. This is emphasized by Krause, who lists several instances of unilateral behavior by Pacific states that have had negative consequences for their trading partners. These cases include the Nixon administration's 1972 embargo on the export of soybeans, which caused difficulties for Japan; South Korea's devaluation of its currency in 1974, which seriously affected the exports of Taiwan; and Thailand's ban on rice exports in 1973, which caused grave problems for Indonesia and the Philippines.¹⁰⁶ To this list can be added numerous measures taken by the USA during the 1970's to obstruct imports of Japanese products, especially through the use of "legal protectionism", and to pressure Japan into the adoption of inflationary policies.¹⁰⁷ In addition, the long standing problem of US inflation can be mentioned, because of its effects on the utility of the dollar as an international currency, especially with reference to oil prices, which are of particular concern to Japan, South Korea, Taiwan, and the members of ASEAN, other than Indonesia.¹⁰⁸

138. There are great inequalities in bargaining strength between most of the states in the bilateral patterns of Pacific relations.¹⁰⁹ In the interests of general equity, these inequalities would have to be overcome through multilateral

arrangements that offered possibilities for groups of smaller states to bargain collectively. The agenda setting advantages enjoyed by larger states because of their bargaining strength would be greatly reduced in multilateral contexts, and, if a permanent negotiating structure were set up, its potential for an independent role in agenda setting and in the guidance of interactions would have great significance.

139. The possibilities for community formation will be limited not only by disparities in size but also by long distances, cultural differences, and diverging political orientations. Yet it may well be possible to improve and expand Pacific communications, and to train new elites at common institutions.

140. Most of the advocates of a Pacific Economic Community envisage a regional consultative body. The proposed organization, tentatively named the Organization for Pacific Trade and Development, (OPTAD) would be formed by Pacific governments to discuss short and long term trade, investment, and monetary issues, and encourage policy adjustments through the development of shared understandings about each state's interests. To facilitate the consultations there would be a small administrative apparatus which would not become "heavily bureaucratic"; most of the proponents of OPTAD appear to believe that this apparatus should not be allowed to develop a strong role, and that the participating governments should retain high degrees of autonomy. Progress towards policy coordination however would be assisted by task forces of professionals appointed for short terms by the member governments.¹¹¹

141. The informality and the consultative orientation of OPTAD, as portrayed by its advocates, reflects hopes of drawing Pacific governments into the organization by emphasising the benefits of policy harmonization while relieving fears about losses of independence and of bargaining power. A difficulty with this approach however is that club style consultation probably would not generate sufficient movement towards substantive collective decision making. Advantaged governments in strong positions would tend to exploit the informality to prolong debate and to

promote inconclusive discussions on decision procedures. Governments in weak positions would tend to seek large benefits in exchange for cooperation. Moreover, while the commitment to informality would preclude adoption of firm rules and procedures, patterns repeated in any collaborative decision making would not become precedents.

142. Functional concerns, and considerations of equity, which together argue for moving beyond current patterns of bilateral relations towards regional multilateralism, thus obligate warnings that, under an informal consultative organization, the substantive questions of Pacific trade, investment and development may well continue to be handled bilaterally. This danger could be reduced by encouraging the formation of a vigorous and assertive administrative apparatus, which could begin to guide the interactions of the participating states. The OPTAD proposal does envisage a Secretariat, funded by Pacific governments, which would function autonomously, with participation by academics, businessmen, and civil servants in semi official capacities. This was suggested by a group of individuals in these three categories from Japan, the USA, Canada, South Korea, the ASEAN countries, Australia, and New Zealand, at a meeting in Canberra during September 1980. The Secretariat would set up task forces for the study of a long list of policy issues, covering energy needs, ocean resources, industrial growth, trade, investment, and developmental aid.¹¹²

Institutional Options

143. Brief references to the European Community are made in studies proposing the OPTAD concept, and the institutions of that Community are considered to be an unsuitable model. The development of a Pacific Common Market is not considered feasible because of the differences in culture and levels of development between Pacific countries, and because the USA is committed to the maintenance of an open global trading system. The structures necessary for the management of a common market, it is felt, are not required in the Pacific, and the view that a large bureaucracy would hamper informal consultations in the

Pacific is sometimes expressed with suggestions that the European Community's common structures are hindrances to policy integration in Western Europe.¹¹³

144. A regional consultative organization is thus felt to be more appropriate because Pacific cooperation would be limited in scope, although much of the logic of promoting such cooperation stresses the dimensions of the interdependencies to be managed. A further reason for preferring a consultative body is that a gradual, incremental, and experimental strategy is advocated, with assumptions that governments would be reluctant to become involved in multilateral interactions that might be guided by a competent and relatively independent common institution.¹¹⁴

145. The institutional preferences of the private groups working for Pacific economic cooperation have implications for community formation and for decisional efficacy in whatever structures are set up, and, thus, for the realisation of tacit hopes that experiences of collective policy coordination will strengthen shared motivations to widen that collaboration. A major problem in visualising the consequences of perceived options however is the pragmatic incrementalism favoured by many advocates of Pacific cooperation. To the extent that this orientation is shared, it hinders understanding of the need to institutionalise the collective interactions of the proposed members in ways that will ensure adequate representation for the smaller and less developed states, and an equitable spread of the benefits from any moves towards regional trade liberalisation.

146. It can be argued strongly that the economic relationships of the Pacific, because of their large dimensions, require comprehensive and sustained multilateral management. This will be feasible only for regional decision structures at a high level of institutional development. If such institutional development can be achieved, the resulting degree of community formation will have much significance for the spread of cooperation from the economic into defence related areas of policy. The perspectives of decision makers in the external security fields thus become relevant for assessments of the institutional options relating to Pacific economic collaboration.

147. The general considerations relevant for strategic analysts are that issue avoidance and burden shifting are likely in loosely structured consultative groupings, but can be limited in international communities that attain a high degree of institutional development. Where there are parallel economic and security international groupings the degree of integration and institutional development in the first can contribute to cohesion and to more effective collective decision making in the second. On the negative side, losses of unity in the economic grouping and a weakening of its structures can impose strains on the parallel security grouping, especially because of the willingness of governments to resort to linkages between the two policy areas in order to bargain more forcefully with allies in need of defence cooperation.

148. The proposals for OPTAD say little about regional security, but Patrick and Drysdale observe, in their discussion of US Pacific interests, that interconnections between economic and strategic issues in Washington's policies are likely to "grow considerably", especially because of a "spilling over" of issues which "cannot be contained within the economic sphere". The protection of US economic and security interests in East Asia, they predict, will require "a large measure of consultation and cooperation with Western Pacific countries".¹¹⁵

149. The significance of functional linkages between foreign economic and defence policies must give military planners a vital interest in the quality of what may be called economic diplomacy towards allied and friendly countries. Failures in such diplomacy, it must be stressed, can hinder defence cooperation. If such failures are threatening because of short term and narrowly self interested handling of foreign economic issues it should be appropriate for military planners to press for more comprehensively rational management of external economic relations, with emphasis on quests for partnership in all areas of interdependence.

Security Implications of Pacific Community Concepts

150. Scholars in the strategic field have taken little notice of

the security implications of proposals for a Pacific economic community, but the emergence of such a grouping would change the context of the numerous bilateral military relationships in East Asia. Shifts towards multilateral security arrangements would become feasible, through choices that could be taken spontaneously by various East Asian states. The USA, meanwhile, would be confronted with issues of economic collaboration, linked with problems of military cooperation. Engagement with such issues would tend to involve the USA and its community partners in matters affecting the political development of modernizing East Asian states whose authoritarian elites generate social discontent that threatens their legitimacy.

151. Most of the literature on security problems in East Asia, like that dealing with such problems elsewhere in the Third World, assumes that only "arm's length" relationships are feasible for industrialised democracies that seek to promote modernization in the developing areas. Many of the prescriptions in this literature are manipulative, and stress the utility of projecting military power, in rivalry with the USSR, for political purposes. The relevant political considerations oblige respect for the autonomy of governments receiving military support, but with care to avoid excessive identification with their fortunes, while nevertheless ensuring that the inducements given to persuade them to continue the military partnership will be adequate.¹¹⁶

152. The magnitude of the security problems in the Pacific would necessitate careful examination of the possibilities for more integrative involvement by the USA even if there were no proposals from economists for the formation of a regional economic community. The difficulties of managing "arm's length" alliance relationships in Third World contexts have become quite evident, especially because of events which have dramatised the dysfunctional consequences of bolstering corrupt and repressive regimes in the developing states. Serious advocacy of a regional economic community now means that the tasks of designing external security policies for East Asia can respond to the imperatives for a more holistic approach.

Community Formation and Defence Collaboration

153. Although advocates of a Pacific Economic Community do not envisage a degree of cohesion that would unite the members as intimately as those in the European Community, the interests of these states do call for substantial regional cooperation. It can be argued that this would require efforts to achieve, at a fairly rapid pace, a high degree of structural integration, so as to avoid many of the difficulties which the Europeans have encountered. The European endeavor aimed at gradual reinforcement of initial motives to cooperate, through experiences of satisfaction with the results, but involved no planning for an equitable spread of economic activity that would counter tendencies towards concentration in dynamic core areas. The integrative process thus began to falter in the 1960's while the collective decision making remained confederal, and increasing inequalities in the distribution of benefits from trade liberalisation strengthened new forms of economic nationalism within the members.¹¹⁷

154. The dynamics which can be expected to affect community formation in the Pacific must be seen in full perspective if their security implications are to be properly examined. If an ambitious thrust would be necessary to ensure self sustaining growth for a regional economic community the framers of defence policies will have strong incentives to add to that thrust. If a modest venture in regional economic cooperation is contemplated the military decision makers will have a vital interest in helping to sustain the commitments of the participants as these are challenged by issues that demand resolute and innovative treatment, in excess of the capabilities of the loose structures that will have been established. These considerations must be linked with analysis of the perspective which currently guides management of the "arm's length" bilateral military relationships of the Pacific. In this perspective great reliance has to be placed on the projection of US military power, and on selective and prudent use of that power to protect and advance US interests.¹¹⁸

155. The formation of an international community requires a basis of shared values, to be realised on a significant scale through cooperation. Felt degrees of affinity to a considerable extent determine the prospects for collaboration, and friendly interaction can increase the degree of value sharing. For substantial solidarity building it is necessary to exchange strong commitments to collaboration, with persuasive justifications for such commitments. Diplomatic rhetoric that is designed to manipulate the feelings and thoughts of foreign ruling elites, at a distance, is not appropriate for solidarity building, and it invites counter manipulation, for example through alternative forms of "card playing".

156. A willingness to seek firm understandings for integrative activity of course implies recognition of the legitimacy of prospective partners. Solidarity building with pariah governments is not an attractive venture for the Canadian and US administrations. The principal exchanges of integrative commitments necessary for community formation would have to develop between the Pacific states with substantially representative administrations. This, if leading to the beginnings of an economic community, would exert an attraction on authoritarian East Asian governments, making them aware that political reform would be a condition for their acceptance into the regional grouping, and that the alternative confronting them would be relative economic and political isolation. Progress towards community formation along these lines would have highly significant security implications, as the emergence of more responsible regimes in some of the ASEAN countries would reduce their vulnerabilities to political violence and could enhance the prospects for comprehensive security cooperation by the new administrations.

157. The security considerations that are relevant for contributions from the North American defence communities to the foreign policies of the Pacific industrialised democracies concern the relative decline in US military power and economic strength; the functional linkages that have developed between the USA's external security and foreign economic policies, as well as between those of Japan, Canada, and Australia; the

prospect of increasing political use, by the USSR, of its military presence in East Asia; the domestic constraints on the use of US military power for the support of Third World governments; and the influence of external uncertainties on the domestically constrained management of US military statecraft. All these factors raise questions about the possibilities for wide ranging cooperation between the Pacific states.

158. The decline of US military power, relative to the faster growing armed strength of the USSR, greatly increases the significance of allies and friends for US defence policy, while expanding and diversifying the range of tasks that must be undertaken for that policy, and posing new requirements for the avoidance of potentially dysfunctional unilateralism in the fulfillment of those tasks. Meanwhile these consequences of the shift in the strategic balance have been made more serious by Congressional restrictions on the use of forces abroad. These have weakened the projection of US power and the credibility of US military commitments in Third World areas.¹¹⁹

159. The cooperation of allies and friends has become more important in US defence policy in order to redress the strategic imbalance and reduce the scope for Soviet military and political initiatives, as well as to facilitate more guidance over events effecting the regional balances, and thus increase the potential for control in crisis situations. The present opportunities for Soviet initiatives, which have been increased not only by the USSR's military build up but also by a weakening of US political influence, may well be utilised for significant gains, particularly in Southeast Asia, before there is progress towards the establishment of a viable Pacific defence community.

160. The weakening of the USA's role in the international economy, which necessitates partnership with other advanced states, for order in the global pattern of trade, investment and monetary relations, has assumed strategic significance because of the military imperatives for broader US cooperation with allies and friends. Further, since most of the

opportunities for revolutionary change and for Soviet intrusion are in the developing areas, the military imperatives confronting the USA obligate more active partnerships with the new states in their modernization programs. Hence it must be stressed that in reviewing the increasingly important linkages between the USA's foreign economic and security policies the dysfunctional aspects of bilateralism must be recognised. The developmental needs of most new states can be appropriately met only in regional communities, in which common potentials for trade and industrialisation can be realised. Similarly, the partnerships that must be sought by the USA with other advanced states should develop in multilateral contexts.

161. The logic of building up military and economic partnerships in regional settings, through establishing new international communities on a basis of geographic relatedness, cultural affinities, interdependencies, and dependencies, is persuasive, and has particular force with respect to the Pacific. There the security imperatives are especially strong, and the most important partner, Japan, the world's most dynamic political economy, is more dangerously exposed to a threat of direct aggression than any other industrialised democracy.¹²⁰

162. US involvement in the building of regional communities can be opposed on the ground that the interests that must be protected require statecraft aimed at global community formation in the long term, and, for the present, more extensive global involvement on a basis of extended bilateral ties. This alternative of course would promise greater flexibility, but it would be extremely difficult and would require very intensive efforts over a long period - much longer than the time that would be needed for the building of regional communities - and through much of that long period the USSR would continue to enjoy the advantages derived from the bilateral character, the insufficient spread, and the "arm's length" quality of US external economic and military ties. It must be stressed, moreover, that the USA's economic resources are not adequate for the support of global bilateralism, and are becoming less so because of the continued weakening of the US role in the

international economy. Further, the quality of the security commitments inspired within allied states through bilateral arrangements is inevitably affected by the absence of significant bonds between the allied states - for example between South Korea and Thailand - as well as between those states and their other neighbours.

163. For Japan, Canada, and Australia, the logic of a US shift towards regional community building, to develop comprehensive partnerships in external security and economic policy, has to be considered in relation to the negative consequence of US "arm's length" military bilateralism and "arm's length" economic bilateralism. In the unequal military relationships the smaller partners have incentives to increase their bargaining strength by limiting their political, economic and security cooperation, and to extract concessions in return for any increases in that cooperation, while avoiding full identification with US overall external policies, because of uncertainties about their evolution. Each of these partners tends to have hopes of increasing its small degree of influence on US external security policy, but the realization that this will be possible only within definite limits is an additional source of restraint on their cooperation. The bilateralism meanwhile causes these partners to have narrow conceptions of their interests; hence they are not inclined to assist each other, and they expect the USA to assume full responsibility for supporting any disadvantaged or threatened partner. Finally, states outside the bilateral network are not attracted towards membership by prospects of solidarity with neighbors, but only by the possible benefits that may be extracted directly from the USA.¹²¹

164. US economic bilateralism, managed at a distance, facilitates maximum use of US bargaining power as long as solidarity does not develop between the smaller partners; it gives those partners incentives to collaborate with each other, but this rarely happens. In the Pacific context, then, Japan, Canada and Australia could benefit greatly if the USA could be

drawn into a multilateral pattern of regional cooperation. Such a pattern would be especially valuable if it would impose restraints on inflationary tendencies in the US political economy, (which have widespread effects on the international trading and monetary systems), and on the methods used by US administrations to reduce that inflation.¹²²

165. At present the manifest imperative to reduce inflation is causing the US administration to exert budgetary restraint, to limit deficit spending. This will have to be maintained over a long period, however, in order to overcome the accumulated effects of some two decades of inflation, and accordingly allocations for the USA's international military role will be onerous. From the viewpoints of the USA's Pacific allies, then, as well as in the perspective of the USA's own interests, "burden sharing" is becoming more necessary in external security policy. This can be promoted in bilateral contexts, but it can become more feasible and more effective in regional communities, in which responsibilities can be shared between the smaller protected states as well as between them and any larger power that assumes an overall protective role.

166. Altogether, the needs of the USA and its Pacific friends for a regional economic and security community are persuasive. Yet it can be asked whether security cooperation in such a multilateral context would be sufficiently swift and resolute to meet all likely contingencies. The greater the degree of cultural diversity in the community, and the greater its contrasts with respect to economic strength, the more serious could be the difficulties caused by delays in cooperation.¹²³

167. The USA's experiences with multilateral decision making in NATO certainly advise caution about accepting dependence on the cooperation of alliance partners that would have weaker affinities than the West European states and more divergent security perspectives, because of greater geographic separation. To be effective, the decision structures in a Pacific strategic community would have to be hierarchical, but efforts to make this possible would have to be accompanied by integrative measures to give the community a high degree of cohesion.

168. For the present the USA and its Pacific partners have to be concerned with the security implications of a regional economic community, in which solidarity deriving from trade, investment, and monetary cooperation could strengthen military ties. The most vital security implications of cohesion within a Pacific economic community would relate to Japan's military development, China's political evolution, and the possibilities for political development in the ASEAN members.

169. For the Japanese government, substantial expansion of the armed forces would become politically more feasible. The formation of a Pacific Economic Community would tend to generate greater domestic support for the Liberal Democratic administration, as there would be much awareness of the nation's leading role in the grouping, and of the enhanced position which Japan would thereby gain in the global community. Membership of a Pacific economic grouping of course could become controversial, in the factionalised high level politics of the ruling Liberal Democratic Party. This however would not be probable, unless it appeared that Japan would be at a disadvantage in relation to the role assumed by the USA, or that the Japanese connection with China would be strained. Opposition to participation in a regional grouping could come from the Japan Socialist Party, the main anti-government force in the Diet, but this does not seem likely. Soviet hostility to Japanese participation in a Pacific grouping would have to be expected but this could stimulate nationalist feelings that would strengthen the domestic position of the Liberal Democratic government.

170. In East Asia, the formation of a Pacific Economic Community could make some increases in Japanese military power more acceptable to countries that had suffered under Japanese occupation during the Second World War. Levels of understanding and trust in the relations of those countries with Japan could be raised, and their ties with the USA could become closer. Of course the increased economic exchanges in the grouping might be seen by those countries as transactions primarily benefitting Japan, but this would be less likely if the

mechanisms for cooperation were designed for equitable treatment of the less developed members and if Japan and the USA were committed to a Lomé type agreement that would be of substantial value to the ASEAN members.

171. Japan's sense of identity with the community would tend to make the Liberal Democratic administration less sensitive to the Soviet military presence, despite its close proximity and threatening projection. Awareness of having the political support of the other members would have a reassuring effect. The preservation of an atmosphere of solidarity and common purpose within the grouping would be vital, of course, and this would impose special obligations on the USA with respect to the management of trade issues with Japan.¹²⁴

172. The Chinese regime could be attracted towards association with a Pacific economic community. The formation of such a community, especially if it resulted in progress towards the development of a broader and more active security network, would tend to give the Chinese increased confidence in their ability to contend with Soviet pressures. The evolution of more responsible and more representative administrations in the East Asian members of the community, moreover, which could be hoped for, would probably cause Peking to gradually accept the need for dealing with those administrations on a permanent basis; existing links with the local Communist movements could thus become weaker.¹²⁵

173. Political change within China could be influenced by the emergence and growth of a regional economic community because this could dramatise the imperative to move towards the development of extensive economic ties with the founding members of the grouping, in order to facilitate rapid modernization in China. With the expansion of such ties there could be an increasing penetration of the pragmatic value orientations associated with the growth strategies of the open market East Asian states, and the political dominance of the technocratic elements in the Chinese leadership could be strengthened. The intrusion of "bourgeois" cultural influences however could increase tensions within the Chinese elite, and could give rise

to a strong movement for restabilisation of the system, with a renewed emphasis on revolutionary values.¹²⁶

174. For the present, external influences associated with alternative political philosophies are affecting the Chinese elite mainly in the contexts of relations with Japan and the USA. In many respects the effects seem to be beneficial, contributing to deradicalisation and technocratic rationality. Association with a large regional economic community could result in a more diffuse penetration of outside cultural influences, from more varied sources. Of course the Chinese already have contacts with Pacific states other than the USA and Japan, but the effects of interactions with these states would be different if they were engaged in a vigorous regional endeavor which ensured equitable management of their dependencies.

175. Political development in the authoritarian ASEAN states could be aided through their interactions with other members of a Pacific economic community. The considerable potentials for revolutionary violence in those states could be reduced, and, under new and more legitimate administrations, they could expand the modest forms of military cooperation within ASEAN. External influence on the Phillipine, Indonesian, and Thai administrations is necessary to encourage political reforms because their domestic oppositions are weak, and because their antagonisms towards those oppositions result in polarisations that favour advocates of political violence. Low level pressures could be applied through repeated public criticisms by private international groups active in the promotion of Pacific economic cooperation. Official pressures could be applied by Japan, the USA, Canada and Australia through discriminatory treatment on economic issues, and especially by restricting the initial application of a Lomé type agreement so that Malaysia and Singapore would benefit most until administrations with significant degrees of legitimacy had emerged in the other ASEAN members. This, of course, would not preclude the use of pressures to moderate authoritarian tendencies in the Malaysian and Singapore governments.

176. The effects of a regional economic grouping on the

accountability of oppressive governments are not discussed in the current literature on Pacific economic cooperation. The consultative association for the region envisaged in that literature however would probably have some gentle influence on the thinking and behavior of the authoritarian ruling elites in the ASEAN members, especially through informal exchanges in study groups. A secretariat for the association, if it assumed prominence through the guidance of discussions and negotiations, could begin to exert considerable moral pressure on the autocratic administrations in the grouping, especially in the context of efforts to promote harmonisation between the public policies of the members.

177. Overall, then, the strategic implications of a Pacific economic community would be sufficiently positive to strengthen the economic logic of participation for the USA, Japan, Canada, and Australia. The most significant defence implications would concern the USA, and the justification for involvement, in terms of US economic interests, would be very strong. Japan is the most important candidate for the wide ranging and vigorous economic partnership which the USA needs in its position of weakening hegemony within the international trading and monetary systems, and it would be in the interests of both the USA and Japan to manage this partnership with the cooperation of, and with accountability to, the smaller Pacific states.

Managing Economic and Strategic Interdependencies

178. In the US, Canada, and Japan, foreign economic policy is shaped under the influence of large numbers of powerful business groups that are mostly uninterested in external security. External security policy is decided principally on the basis of bureaucratic inputs, and these come from structures much less numerous than the departments, bureaus and agencies that deal with foreign economic relations. Structures for the coordination of military and external economic statecraft tend to be weak in the USA and Canada, while in Japan an impressive structural potential for such coordination is underused, despite the general

concern with comprehensive security, because of a tendency to separate economics from politics in the nation's foreign relations.¹²⁷

179. Close integration of the USA's foreign economic and external security policies has become imperative, it must be stressed, because of the increased need for partnerships in each area of foreign relations, to compensate for weakened hegemony. So far, however, this imperative has been recognised in policy oriented literature only with reference to Atlantic relations, where there is certainly a need to strengthen ties with the West European states.

180. In US-Canada relations the economic and strategic interdependencies are managed with regard to North American and West European defense, on a basis of NATO commitments, but without reference to the security interests of Japan and the developing East Asian states. If Canada were involved in a consultative Pacific association for regional economic cooperation a growth of Canadian concern with the security problems of the open market East Asian states could be expected. All the members of the association would tend to become aware of shared interests in this area of policy, especially on the basis of common recognition of problems affecting vital trade links, access to important markets, and supplies of fuels and raw materials.

181. The economic interdependencies between the USA and Canada are currently managed under the disadvantages of a very asymmetrical relationship. Canada would benefit if this relationship were brought into the multilateral setting of a Pacific economic community, since other members of the grouping would be eager to develop ties that would diversify their external economic relations. The USA would also benefit, not only from influence acquired through ties with other members, but also to the extent that trade liberalisation within the community would further integrate the North American market. The Canadian capacity to manage the relationship with the USA, it should be stressed, could be especially augmented through vigorous diplomacy to develop economic bonds with Mexico and Japan.¹²⁸

182. The US-Japan economic and security connections are being managed rather abrasively, thus negatively affecting the prospects

for the development of a regional community, but making such an association all the more desirable. The strains in the economic relationship, it must be emphasised, affect Japan's willingness to build up a larger military establishment in accordance with US demands. Because of large trade balances in Japan's favor, interest groups in the USA exert strong pressures for protectionist measures, and, as these are adopted or threatened, the affected interest groups in Japan are obliged to exert influence on their own behalf, within a highly integrated policy process that has to deal with external security issues as well as foreign commerce.

183. The strains in the strategic link, like those in the economic connection, reflect the difficulties of "arm's length" diplomacy. The USA's increased needs for cooperation, resulting from relative losses of international influence, have not been met because the management of alliance diplomacy at a distance has not produced sufficient solidarity. On the Japanese side the connection has also been managed at "arm's length" and external policy has been dominated by imperatives to maximise export led growth, in a highly competitive international environment.¹²⁹

184. Recognition of the weakening of US hegemony has caused some loss of orientation in Japan's external policy. The problems are extraordinarily difficult to manage, and have to be dealt with in conditions of great uncertainty and relative isolation. The United States is urging faster conventional rearmament, without increasing the credibility of its nuclear protection, and with little sensitivity to the domestic political interests of the Liberal Democratic administration. At the same time the USA and the West Europeans are attempting to obstruct Japan's export successes in the relatively open international economy which they strongly influence. Japan therefore needs understanding partners in foreign economic policy, especially with capacities for complementary industrial specialisation at comparable levels of growth, and ideally these partners should be in the Pacific environment. Japan also needs to seek security

in a multilateral regional setting, in which military cooperation and political support would be forthcoming from other Asian states as well as the USA, and in which increased restraints on Soviet displays of force would reduce uncertainties and risks in external security policy.¹³⁰

185. The US-Japan economic and strategic interdependencies require integrative management, within a regional community in which the interests of states dependent on these powers will be articulated. Demands for more coherent and comprehensive US policy, and for more considerate Japanese use of nontariff barriers, could be made by the central organization of a Pacific economic community on behalf of broadly representative groups in member countries. Canada, as a state affected by the interactions between Japan and the USA, could benefit greatly from the development of those interactions in a Pacific grouping.

186. The evolution of US-Japanese and US-Canadian ties will affect Sino-US and Sino-Japanese economic and strategic relations. Chinese perceptions of the balance of forces in East Asia would be altered by the emergence of a regional economic community, and would be altered even more if substantial defence cooperation occurred. China's management of relations with the community would require much awareness of the complexities of its internal processes, and, if policy coordination within the grouping became extensive, the Sino-US and Sino-Japanese connections would tend to be drawn into the community's multilateral interactions. Such diversified involvement, presenting new opportunities and problems, could encourage the evolution of a more pragmatic Chinese outlook.

187. At present the tensions in US-Japan relations tend to validate Chinese ideological expectations of antagonisms between the advanced capitalist states, and of course do not encourage anticipations that China may later have an opportunity for association with the management of interdependencies in a regional community. In their bilateral relationship with the USA the Chinese tend to be on guard against manipulation, because of Washington's concerns with influencing Soviet policy. Suspicions and fears on this account could be somewhat relieved

if the USA began to manage the relationship in collaboration with regional partners, including Japan. In such a setting the Chinese connection with Japan, moreover, would be less affected by anxieties about that state's sensitivities to Soviet military power, and stronger emphasis on friendship with China could be expected in Japanese policy.

Economic and Strategic Dependencies

188. The logic of integrative diplomacy to manage Pacific economic and strategic interdependencies is applicable in different ways to the more unequal relationships between advanced and developing states in the region. The normative and functional issues posed in these relationships set requirements for profoundly cooperative efforts to improve the terms of interaction and exchange.

189. Economically, the modernizing open market East Asian states depend principally on Japan and the USA, as trading partners, and sources of investment and development aid. Strategically they are dependent on the USA, for overall protection and military support. For these dependent states there are very close links between the economic and the external security connections, but the United States tends to separate these two areas of policy, and, in the economic relationships, many issues are matters of interaction between the dependent governments and US based international firms.

190. Economic dependence entails inequalities in bargaining with international firms and industrialised nations. Developing states are thus challenged to work for change in these relationships, especially through acquiring more bargaining resources. This can be attempted through political action to acquire greater economic sovereignty and mobilise domestic resources for growth; through the exploitation of rivalries between international firms and industrialised states, so as to diversify investment inflows and trade; and through the promotion of collaboration with other developing states, for the establishment of common markets and for collective dealings with foreign firms and governments. For

most Third World states the imperatives are large, immediate, and difficult, but for the governments of the industrialised democracies there are no pressing requirements to change the unequal relationships. The administrations of these advanced nations however do have capacities to join with developing states for common endeavors to make their interactions more productive and equitable. For the USA, and for Japan to a lesser extent, strategic considerations could provide special motivation for more collaborative dealings with such states, but of course such engagement would be desirable on moral grounds even if the strategic factors were not present.¹³¹

191. The dangers of exploitation and the difficulties of changing the terms of external reliance are greatest for developing states with heavy dependencies. In this regard, Taiwan is the most seriously disadvantaged East Asian state, and its difficulties are made worse by lack of opportunities for collaboration with other developing states. Taiwan's problems would be eased through formal or informal association with a Pacific economic community, and this would provide a setting for multilateral involvement in the strengthening of Taiwan's international position - a need which was dramatised by Peking's aggression against Vietnam soon after the Carter administration's derecognition of Taiwan in late 1978. The longer term possibilities of attracting mainland China towards a Pacific economic community would not be jeopardised, provided the founding members of the group showed a common resolve not to yield on this issue. Firmness in dealing with Peking on this matter, it should be noted, could have a very significant effect on Vietnam, since Hanoi's heavy dependence on the USSR has resulted in part from perceptions of US emphasis on building an alliance with Peking.¹³² Further, the demonstration of a strong regional commitment on Taiwan's behalf could indirectly make it feasible for Thailand to discontinue its collaboration with Peking's assistance to anti-Vietnamese guerillas in Cambodia. Termination of the activities of those guerillas could help to reduce Hanoi's reliance on the USSR's military aid and improve the prospects for detente between Vietnam and Thailand, and,

possibly, for some Vietnamese association with a Pacific economic community.¹³³

192. South Korea, also disadvantaged by heavy strategic dependence, is nevertheless in a position of relative economic strength, because of successes in diversifying trade and investment dependence, and the utilisation of domestic resources for growth. Moreover, although this state's ties with other developing East Asian neighbors are weak, it is fairly well placed to build up its connections with the ASEAN members, especially because of its industrial development.¹³⁴

This could make it possible to become associated with those states in dealings with Japan on trade and investment issues, and that could oblige the USA to seek participation in the emerging interactive pattern. On the US side, in the short term perspective, the terms of the unequal relationship present no imperatives for change. South Korea, however, is a state vulnerable to political violence; if it could be drawn into a regional community this would be strategically very significant.

193. Thus far, US East Asian policy has moved towards recognition of the potential significance of multilateral cooperation only as a response to increased activity within ASEAN, since the Communist victories in Indochina. Basically, however, the members of this association have to manage their external dependencies individually, and can expect more US and Japanese cooperation only if vigorous efforts are made to open dialogue and change the terms of interaction, on the basis of greater solidarity within ASEAN.

194. Within this subregional grouping Thailand and the Philippines are the most dependent states, economically and strategically. The Thai administration, accepting a moderate degree of social accountability, has a significant capacity to mobilize domestic resources for growth, regulate foreign investment, diversify external trade, and develop political cooperation with ASEAN neighbors.¹³⁵ Any increases in economic bargaining power through these methods should be of some help in managing the nation's heavy strategic

dependence, which is especially difficult because of Malaysian and Indonesian opposition to the strategy of collaboration with Peking to aid the guerillas in Cambodia. Thailand's complex strategic dependency, more than that of any other Southeast Asian state, calls for sympathetic US initiatives that will facilitate management of the relationship in a comprehensive fashion, and within a context of regional solidarity. A more forceful method of engagement however might be required in dealing with the Philippines, as its dependency relationship is similar to those of vulnerable states in Latin America.

195. The Philippine capacity to use domestic resources for growth and to regulate and diversify transnational involvement in the economy is impaired by administrative failings. On the US side there is a desire to keep the relationship at arm's length, but the USA is closely identified with the present administration in the eyes of many Philippine citizens. Initiatives to change the character of the relationship can come only from outside, and the main responsibility for taking such initiatives must be accepted by the USA, especially because the strategic connection with this country is threatened by the danger of social unrest.

196. The Philippine problem is especially important because of the utility of bases in this country for the USA's East Asian security role, and because the image of the USA as a power in contest with the USSR is directly affected. The main danger to be reckoned with is that a successor regime may be quite unfriendly to the USA, due to the extent to which political forces in the country are being polarised.

197. Indonesia's economic dependencies differ from those of the other ASEAN members because this country, although not a member of OPEC, profits from that organization's capacity to extract relatively high prices from industrialised countries dependent on imported energy. The Indonesian regime however lacks the will and competence that would be needed to utilise adequately its nation's resources for growth, and to regulate appropriately the involvement of international firms that seek to use those resources. In collaboration with other ASEAN

members Indonesia can exert leverage against Japan, and to a lesser extent against the USA, to secure better access to their markets for primary products and low technology manufactures, but there is little use of this capability.¹³⁶ As in the case of Thailand, there is a need for an enlightened US endeavor to facilitate equitable management of Indonesia's economic dependencies in the bilateral context, and for the support of wider collaboration within ASEAN.

198. The closer engagement with the Indonesian ruling military elite that is imperative for developmental reasons is also necessary for strategic purposes, because the social tensions caused by that elite's policies and practices constitute a dangerous potential for revolutionary violence. This security problem necessitates a strategic partnership rather than a connection based on distant military support, and a resourceful effort to build up such a partnership in a regional community setting. The resultant forms of bilateral and multilateral accountability could be expected to have a beneficial influence on the regime's attitudes towards its domestic critics, its methods of exercising power, and its economic policies.

199. Malaysia's dependencies, more diversified than those of Indonesia, Thailand, and the Philippines, are managed with considerable competence and with a substantial capacity for self reliant use of existing endowments. The USA, however, has to recognise that revolutionary violence in Southern Thailand may spread into Malaysia, and that ethnic tensions within Malaysian society may well increase. A strong strategic partnership, therefore, is needed with this country also. The development of such a bond could be assisted by a closer economic relationship, which could be sought while encouraging Malaysia to give leadership for integrative ventures within ASEAN and for the development of positive ASEAN approaches to the formation of a Pacific economic community.

200. The fairly restricted forms of military cooperation within ASEAN could be expected to grow with US assisted progress towards integration within the organization, and with the emergence of a Pacific Community. US moves to initiate

closer military relationships with member states could be phased, to allow prior development of the solidarity to be expected from partnerships in regional economic growth. In this way some of the problems of security engagement in Third World areas could be avoided, and an appropriate environment for a Japanese security role in the Pacific could be prepared, to the advantage of the smaller Pacific states.

Alternative Futures

201. Planning for regional cooperation in the Pacific has to begin with forecasting. This, inevitably, is done with reference to appraisals of the recent past, and to preferred policy orientations. The scope for rationality in this process however is affected by the influence of metaphors and idioms in the political language of a large volume of policy oriented literature which serves decision makers under pressure; this is characterised by conceptual simplicity, simplicity in causal attributions, heavy reliance on rational actor assumptions in its interpretations of events, and a sensitivity to the fortuitous that implicitly sets limits to analysis.

202. Much of the policy oriented literature tends to reinforce intellectual habits suited to pragmatic incrementalism, and averse to planning. The pragmatism, based on hopes that the course of events will provide indicators for policy, results in tendencies to await developments, and is distrustful of attempts to forecast. The incrementalism is guided by general impressions of current and emerging trends which are conveyed in this literature, and these impressions tend to be sustained through selective interpretations of incoming information. The consequences for external security policy can be more serious than in foreign economic policy because in the latter considerable rationality is assured by the persuasive effects of multiple feedback from professionals measuring actual changes in economic processes. In external security policy the measurable factors are much more limited, judgemental matters assume greater prominence, feedback comes from fewer sources

and is less persuasive, and there is greater scope for expression of the leadership's subjective preferences.¹³⁷

203. The impressions, assessments and prescriptions in literature on the central balance and security in Third World areas derive from orientations in scholarly studies that are not easily assimilated by high decision makers. They function under constant overload and are distracted by their political interests.

204. Concerning the central balance, some of the literature focuses on the urgency of building up US military ties on a global scale to ensure comprehensive and adequate responses to Soviet pressures. Other studies suggest that balancing the military power of the USSR is not so urgent, that the Soviet Union can be favorably influenced over the long term through constructive economic diplomacy, and that responses to Soviet involvement in the Third World should be very restrained.

The Soviet Union, it seems to be understood, will then devote much energy to penetration of the developing areas, where complex and frustrating entanglements and experiences of political failure will tend to diminish its ambitions. Western counter involvement, in this perspective, should generally be avoided because of the dangers of diminishing the legitimacy of governments seeking protection, and of becoming identified with "soft states" whose vulnerabilities cannot be remedied.

Related observations convey the suggestion that the USA must first overcome its neocolonialist image in the developing areas by showing a genuine commitment to the establishment of a new international economic order, and that in doing so it will remove many of the opportunities for revolutionary violence and Soviet involvement in the Third World.¹³⁸

205. Whichever perspective influences policy preferences will also tend to influence forecasting. This will become evident in attempts to outline alternative futures for the Pacific, which will require critical examination of the two perspectives. This is often not encouraged by the policy oriented literature, because much of that has a partisan quality, and as such contributes to favorable estimations, by decision makers, of their preferred policies.

206. The perspective stressing the urgency of responding globally to Soviet military pressures, which can be termed geopolitical, attaches much significance to the growth of Soviet naval and air power in East Asia, and to the consolidation of the Soviet presence in Indochina. What is anticipated, then, is a Soviet supported Vietnamese effort to influence and assist the Communist insurgents in Thailand and an increasing projection of Soviet power to establish a sphere of influence in Southeast Asia and to eliminate the US role in that area. The urgency of a comprehensive response is thus felt to necessitate vigorous alliance diplomacy to build up military relationships with friendly Southeast Asian states, and accordingly assessments of the political strengths of those states tend to be optimistic.¹³⁹

207. The alternative perspective, sometimes misleadingly referred to as "regional", sees less urgency in the challenge of Soviet intrusion into the Third World, and anticipates that this involvement will become counter productive, by provoking nationalist reactions, despite the political advantages enjoyed by the USSR as a state opposing neocolonialism and imperialism. Accordingly, tensions are expected between Vietnam and the USSR, Soviet utilisation of bases in Vietnam is expected to the restricted, Chinese influence in Southeast Asia is viewed as a significant barrier to Soviet involvement, and the scope for such involvement is felt to depend very much on the growth of revolutionary potential and of anti-US feelings in the ASEAN states. The political strengths of those states are not rated highly, and their records on human rights are expected to remain poor, but successor regimes which may emerge from revolutionary struggles are expected to be independent, rather than aligned with the USSR.¹⁴⁰

208. The diverging approaches recognise the probability of a more actively interventionist Soviet role but differ in estimations of its results, and of the effects of alternative forms of US engagement. In the first perspective, inadequate responses to Soviet challenges are expected to facilitate a substantial strengthening of the USSR's role in East Asia, while in the second perspective a policy of vigorous US military

engagement is expected to be responsible for failures, to the advantage of the USSR. The logic of the second perspective can be made more persuasive with reference to the weakening of the US position in the global balance, and to legislative constraints on US defence policy, but the first perspective can be given a stronger foundation through careful study of the accumulating difficulties of obstructing Soviet gains in the Third World at the point where clearly vital US interests would be threatened.¹⁴¹

209. The two approaches assume that the USA is restricted to "arm's length" military relationships with developing states, and that these states will have little will or capacity to collaborate with each other for external security. If the possibilities for integrative alliance relationships are recognised, however, some of the claims made for the active global and the less active regional perspectives would be reconcilable. The active global approach is associated with heavy reliance on military methods, including the support of friendly but weakly legitimised authoritarian regimes that have capacities for self destruction through the alienation of their citizens. Military cooperation with these states however can be combined with efforts to build regional economic communities in which their ruling elites will be influenced by new forms of external accountability, and in which there will be possibilities for extensive interaction between business, academic, and other groups, across national boundaries. This would involve direct and sustained engagement with the problems seen by advocates of very limited involvement in the developing areas. Of course the engagement could be dysfunctional, especially in very authoritarian regimes, and in states divided by severe communal antagonisms; in many cases, moreover, the subjective preferences of ruling elites for nonalignment on global issues would present difficulties. But in the processes of regional community formation diffuse external conditioning could indeed have beneficial effects on the national administrations, and could also help to moderate domestic antagonisms.

210. With a perspective that recognises the complexities of

regional situations but sees these as challenges to integrative diplomacy, and that is sensitive to the logic of seeking comprehensive global security, and to the imperatives for strategic partnerships rather than military connections managed at a distance, forecasting for East Asia can avoid undue focus on probabilities that are especially salient for active global unilateralism and cautious regional unilateralism. The principal factors that will demand attention will be the political use of Soviet power in the area and the potential for military and political cooperation between the ASEAN members.

211. The USSR, it must be stressed, is likely to increase its military presence in East Asia in order to project this with greater effect, intensify general awareness of China's military weakness, and induce Japan and the ASEAN states to shift towards accommodative policies, as well as to convince the Vietnamese that close collaboration with the USSR is in their best interests. Threatening displays of Soviet military power close to Japan will probably become more numerous and disturbing, especially to dramatise the inadequacy of the USA's military strength in the area and encourage Japanese domestic opposition to increases in defense spending.¹⁴²

212. In Southeast Asia Thailand will probably be a special object of Soviet strategy. On the basis of a significant identity of interests with Vietnam, efforts are likely to be made to promote opposition, within the Thai military elite, to Bangkok's policy of collaboration with China's involvement in Cambodia, and to encourage the emergence of a nonaligned Thai government that will develop economic and cultural ties with Vietnam. At the same time Vietnamese and Laotian attempts to penetrate and gain control of the Communist movement in northeast Thailand are likely to increase. If there is an improvement in Thai relations with Vietnam, this, while evoking Chinese hostility and possibly causing strains in Sino-US relations, will tend to strengthen Thailand's links with Malaysia and Indonesia, and facilitate new Soviet approaches to those two states.

213. Soviet gains, including any strengthening of Soviet-Vietnamese

relations, will tend to cause frustration within the Chinese leadership, perhaps weakening the position of Deng Xiaoping's group, and some of this frustration may well be vented at the USA, in the hope of stimulating a more active anti-Soviet strategy, although a more likely result would be US caution because of uncertainties about the viability of the China connection. Any serious difficulties in Sino-US relations of course would influence the Japanese administration, especially by altering perceptions of the regional balance and strengthening the case for increased economic and political cooperation with the USSR.

214. The USA cannot deal with all these possible problems through its present pattern of arm's length bilateral defence relationships. This has to be reiterated, not only because of its significance for US planning but also because it must be an active concern for other Pacific states, especially Japan, Canada, and Australia. In this large area of international politics a wide pattern of security interdependencies sets requirements for what may be called macro-strategic management that can be met only on a collaborative basis, through the cooperation of numerous concerned states. The valid insights of the advocates of cautious and selective regional involvement therefore must be seen as challenges to build a regional community, and so also must the insights of the global geopolitical activists.

215. Cohesion and solidarity within a regional community - not merely within ASEAN - could provide vital psychological support for the maintenance of unity and purpose with the Thai military elite. Such support cannot be derived from the distant military relationship with the USA, and it is urgently needed to meet the demanding requirements of Thailand's complex security problems. Japan, if also benefitting from a new sense of identity with a regional association, would tend to see less danger in larger Soviet displays of force, and would be more willing to assume regional defence responsibilities and to continue assisting China's modernization.

Risks and Tensions

216. The future which can be envisaged for the Pacific if a cohesive regional economic community is established will be more stable and secure than what can be projected from the current situation in the light of either active global or less active regional expectations, with assumptions of US restriction to arm's length diplomacy. The evolution of this alternative future would depend very much on the scope and pace of economic cooperation and on the quality of the integrative alliance diplomacy which would be attempted by the USA. The economic collaboration could become increasingly difficult because of inequalities in the distribution of benefits from freer trade, and because of the activation of diverse pressure groups seeking to influence the policies of member governments. At the same time the attempts at integrative alliance diplomacy could go beyond what would be supported by the level of economic solidarity - or could fail to take full advantage of that level.

217. The economic benefits of a consultative Pacific association would almost certainly be uneven. The participating governments would tend to cooperate at their discretion, making policy adjustments in the light of each other's bargaining power and interests, and in response to domestic pressures. This seems highly probable because of the general increases in economic nationalism over the past few years which have affected the trade policies of most of the industrialised democracies and which have thus weakened international economic organizations at the global level. There would be no strong institutional arrangements to ensure equitable terms of participation and general movement towards collective decision making. Administrations would tend to be dissatisfied because of the perceived failures of other participating governments to make matching concessions on trade and investment issues in the general interest. Commitments to sustain the consultative endeavor would probably have to be supported by vigorous leadership activity, possibly by the USA.

218. A Pacific community oriented towards gradual market integration would yield uneven gains because of differences in

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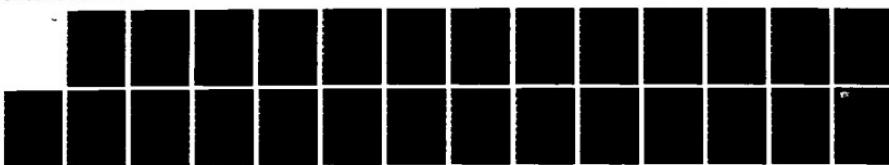
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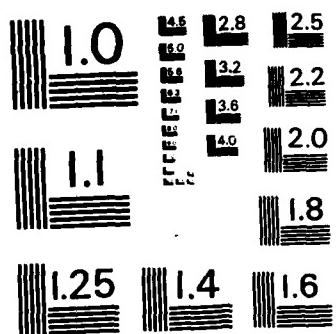
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national capabilities. The decision processes however could engage with the problems of readjustment, if impetus for this could come from a common institution - a secretariat or commission - serving as a permanent source of policy inputs based on the aggregated interests of the participating states.¹⁴³ If the initial attempt at community formation were to reach this level of integration the reinforcing effects of common policies could be fairly potent and might not be unduly weakened by conflicts over the distribution of gains from liberalised trade.

219. The introduction of integrative alliance diplomacy into the regional setting of economic cooperation would entail risks. Public displays of nonalignment can have political utility for some of the ASEAN states, domestically and externally, and ASEAN fears of US and Japanese economic domination, while relieved by the methods of regional consultation and decision making, could be stirred by the emergence of designs for military cooperation. Moves for the development of such cooperation thus would have to be phased, to ensure that sufficient rapport in support of community formation had been built up through economic collaboration, and through wide ranging consultations on basic policies which hopefully would develop with such collaboration. Nongovernment groups in the Pacific countries, sharing commitments to comprehensive regional development, could provide vital contributions to the growth of a regional security consensus while engaged in the fundamental task of fostering general agreement on the need for economic cooperation.

220. The quality of the shared commitments to the formation of an economic community would have profound importance: it would largely determine the possibilities for common resolution of the issues concerning the redistribution of economic benefits from cooperation on trade and investment, and, thus, for larger integrative endeavors. The responsibilities of the USA and Japan, the largest members, would therefore assume great significance, because of the need for leadership in promoting the consensus for building a regional system and generating a common resolve to make that system productive. Broad rapport between

the USA and Japan, accordingly, would be essential for the beginning of this enterprise, but this rapport would probably have to be attained with inputs from directly concerned states, including Canada.

Economic and Strategic Crises

221. Failures in the management of tensions within a Pacific community would have to be foreseen. Hostile sequences of interaction could escalate into crises between the members, and accordingly there would be a need for consensus about approaches to be taken for resolution of these issues. Crises would also have to be anticipated in the community's external relations, particularly on security problems posed by Soviet activities.

222. If there is increasing cohesion with ASEAN, as would be desirable for the development of a more balanced spread of bargaining power within the proposed Pacific grouping, stronger demands could be made by the ASEAN states for more equitable US and Japanese foreign trade policies. If there were much inconclusive interaction, ASEAN frustrations could precipitate serious displays of antagonism, but US and Japanese decision makers, being rather remote from the context of the issues, and constrained by powerful domestic interest groups, might fail to make sufficiently conciliatory gestures.

223. In a loosely consultative regional grouping crises could lead to less and less frequent and less and less substantive interaction. In a more cohesive and more structured grouping a common institution designed to promote regional interest aggregation could help to moderate behavior in a crisis between members, but the larger and more advanced states would have to assume most of the responsibility for resolving the issues.

224. There is a near term prospect of stronger protectionism in US foreign economic policy, resulting from domestic pressures. The current administration's high interest rates, by forcing up the value of the dollar, are tending to increase imports and hamper exports; large unfavorable trade balances are thus likely, and disadvantaged producer groups in the United States will

probably demand more protection. The measures adopted may well increase the discrimination against manufactured goods from developing countries more than the barriers against such products from advanced states, since the developing countries have weaker bargaining power.¹⁴⁴

225. To reduce possible tensions and prepare the way for the resolution of any crises over trade issues in a Pacific economic grouping the United States could make a firm commitment to negotiate, in conjunction with Japan, Canada and Australia, a Lomé type agreement with the ASEAN members. The demonstration of a very cooperative attitude in the preparation and implementation of such an agreement would produce an atmosphere conducive to swift resolution of a crisis over commercial policies.

226. The security interests of members of a Pacific economic grouping could be affected by any economic crisis that weakened solidarity within the association. Resentments produced by the crisis could cause some member governments to adopt stands emphasizing divergence from or opposition to US security policy, or simply the avoidance of association with such policy. Such activities would further weaken the emerging community, and through the effects on US legislators and officials would inhibit diplomatic initiatives by Washington to provide leadership for a rebuilding of consensus.

227. Planning for the management of economic crises within the Pacific grouping would have to be combined with planning for security crises. This would be primarily a US responsibility, and vitally interested partners would be Japan, South Korea, and Thailand. A security crisis could well result from Soviet pressures in East Asia that had been tending to increase while consultative processes within the Pacific grouping were delaying responses: to prevent further deterioration of the situation the US administration could threaten drastic countermeasures.

228. The USSR seeks to gain influence and promote revolutionary change through forceful methods of political and military "struggle" that exploit the weaknesses of "soft states" in the developing areas without provoking severe US countermeasures. The established pattern of Soviet involvement

in the Third World indicates restraint to avoid crises, and it is clear that the Soviet authorities desire to prevent dangerous escalations of tension because the stiffening of Western resolve would change the central balance and because the rigidity of their own system could hinder effective crisis management. The military doctrine which guides Soviet external security policy has a strong preemptive thrust, and requires maximum exploitation of the advantages of surprise, which would be lost by precipitating a crisis.

229. The Soviet authorities however may overestimate the US administration's willingness to observe restraint - for example with respect to Soviet military support of an insurgency against a Southeast Asian government. US hesitation and caution, necessitated by consultative obligations and domestic constraints, especially in Congress, could encourage substantially increased Soviet displays of force and resolution, in the expectation that US restraint would continue, even if reduced. The US administration, determined to prevent any major Soviet gains and seeing a need to achieve decisive results within a short time - before having to bargain for Congressional support - could raise tensions through a series of threatening communications and moves. These responses in turn could be viewed by the Soviet authorities as threats to their international status that would warrant firm countermeasures even at the risk of further escalation.¹⁴⁵

230. A crisis would increase tendencies towards unilateralism in US policy, under the pressures to cope effectively with the rapidly changing situation. Hence it would be necessary to prepare for such a contingency by promoting regional defence consultations within the Pacific grouping and then building up a structure for the support of such consultations. From the start of this expanding process of security cooperation the consultations would have to aim at the formation of a consensus on ways of countering Soviet strategy that would recognise the vital role of US military power and the importance of an integrated regional political and military strategy in support of that role, as well as the need to ensure that the development of the role would accord with regional understandings of the area's security requirements.

231. Certain common problems of alliance cohesion and recruitment would have to be expected. The endeavor to form a community would have to seek a consensus that would be comprehensive enough to ensure recognition of these problems and effective engagement with them in advance of any crisis. Basically these problems would be burden shifting tendencies that would influence the behavior of major and minor allies. A major state in a protector role may tend to push some of the risks and costs of its strategy on to a small ally, or may reduce support for such an ally in order to make a disguised accommodation with its main adversary. A small ally may limit military and political cooperation with its protector in order to avoid drawing hostility from the principal adversary, and to indicate that no strong opposition will be shown to its treatment of a threatened member of the alliance system. Such a shift towards neutrality may be motivated in part by anxieties about the coherence and stability of the protecting state's policy, and a switch to full neutrality may not be desired.¹⁴⁶

232. The basic solution to the problem of burden shifting tendencies in an evolving defence community is the development of full consensus on ways of attaining comprehensive security. Operationally the consensus would have to sustain rapid task oriented consultations in a spirit of strong solidarity. For the building of such a consensus the most suitable model to follow would be not the Western style of legalistic arms length bargaining over commitments that are expected to shift with changing interests but the Japanese style of integrative deliberation for permanent solidarity. This alternative model, of course, would require intensive and prolonged consultations, and the cultural basis for these would be fragmented and not fully supportive, in comparison with the cultural environment for decision making in Japan. The model would have to be adapted for the attainment of consensus with less delay, and to provide for a rapid upward shift of collective authority at the onset of a crisis.

233. The solidarity producing potential of the Japanese model of course would make its adoption desirable within an emerging

regional economic community, and, to the extent that it became effective in that context, it would assist the growth of cohesion in regional security interactions. While adaptation would be necessary for collective decisional efficacy on common economic policies, the emphasis on consensual methods would help to improve the terms of participation for the smaller and less developed Pacific states, including the ASEAN members, thus overcoming their fears of economic domination by the USA and Japan. The significance of this prospect, it should be emphasised, warrants active concern by the framers of defence policies in the USA, Japan, Canada, and other Pacific states, to the extent that they can contribute to the regional economic decision making of their governments.

Political Designs for Pacific Cooperation

234. The inputs of defence planners to policy debates on Pacific economic cooperation may appropriately include suggestions for the designing of regional structures, as well as for the promotion of comprehensive understandings to support collective decision making within those structures. Ideally the structures should be representative, functional, and well founded on principles, norms, and rules.

235. A Pacific regional system, to produce negotiated allocations of values on a continuing basis, for equitable distribution, will have to be supported by a regional political culture. This can be expected to grow through consultations, and forms of cooperation that demonstrate integrative intent, with trust, goodwill, and understanding. A large volume of such exchanges should be planned for, so that multiple networks, with reinforcing personal ties, will begin to link political leaders, administrators, academics, and entrepreneurs of the member countries in a transnational community. Conferences and ongoing study groups devoted to specific policy issues, under governmental or semi-official sponsorship, would help to initiate the exchanges. Over the longer term, the establishment of a large regional university, with a complex of research institutes, would help to

bring into the emerging transnational community numerous technocrats, scientists, politicians, and other figures with shared experiences and outlooks.

236. The value orientation of the developing regional political culture would be shaped through the building of consensus on basic principles and through the implementation of cooperative projects. The basic principles would have to deal with the collective management of interdependencies and dependencies, and especially, the guidance of their evolution. The formulation of these principles, in terms that would elicit general assent, would have to express the willingness of the advanced countries, especially the USA and Japan, to meet the expectations of modernizing Pacific countries for equity on trade, investment, monetary and developmental issues. The most significant initial expression of these principles, it can be argued very strongly, should be a Lomé type agreement between the advanced Pacific states and the ASEAN members. This could be the most basic cooperative project of the grouping in its early stages, and it could inspire confidence, among the elites of the ASEAN countries, regarding the willingness of the advanced states to give them full scope for participation in the shaping of collective decisions on all economic issues.

237. The most substantial collective endeavor of the grouping - the guidance of activities by international and national firms in the interests of industrial complementarity and of regional growth, with equity - could become, over the long term, the principal source of support for the community's political culture. Much would depend on the quality of the integrative statecraft undertaken by the USA and Japan, because of their size, bargaining power, and ranges of options, and because most of the international firms operating in the community would be based in these two states. Since the design for complementarity would require a matching plan for trade liberalisation the entire venture would demand vigorous and innovative US and Japanese inputs, and, if these were forthcoming, they would inspire much confidence and goodwill in the other prospective members of the community.

238. The structures for regional decision making could be

planned to facilitate fairly swift commitment to projects intended for industrial complementarity that would promise results sufficient to reinforce the initial commitments to cooperate. The difficulties of implementing a sound project for industrial complementarity within ASEAN over the past few years would discourage optimism, and it would have to be anticipated that the less responsible ASEAN administrations would seek to extract high prices for their cooperation. Hence the USA and Japan would have to provide strong leadership, while nevertheless ensuring that the structures remained representative, and the leadership would have to be sustained, especially while the initial projects were getting under way. Considerable equality of participation in the regional structures would have to be provided for, but presumably this would be done with tacit assumptions that US and Japanese inducements, relating especially to the proposed Lomé type agreement, would be used to move the deliberations forward to the decision making stage so that the initial cooperative projects could begin, and then produce their reinforcing effects.

239. The first principle that can be affirmed for the building of regional institutions is that the collective management of Pacific interdependencies and dependencies by autonomous open states is necessary in the common interest, especially in view of the disorder in the international trading system and the difficulties of overcoming that disorder while the United States remains in a position of weakened hegemony.¹⁴⁷ Within the Pacific area rapidly increasing degrees of interdependence and dependence are strengthening the imperatives to move away from the present disorderly pattern of partial and unequal settlements of economic issues towards a coherent and equitable system of managing common interests.

240. The problems of equity of participation in collective decision making, and of equity in output, as well as the problem of ensuring that the decision making will be sufficiently functional, would have to be dealt with through explicit norms and rules. The most important norms, hopefully, would set a permanent orientation towards consensual Japanese style decision

making, with very extensive and intensive consultations, involving government departments, business groups, academics, politicians, and opinion leaders. The private groups contributing to community deliberations could provide a vital service by advancing proposals for the establishment of representative regional institutions, supported by a relatively autonomous technocratic structure that would provide thrust for cooperation in the common interest. An even more important service, if the proposals were accepted, would be the promotion of general agreement in support of the consensual norm for working towards policy cooperation.

241. The second principle that can be affirmed to provide a basis for building regional institutions is that problems of political development in the participating states will affect the development of the regional system, and that accordingly each member state will have a legitimate and indeed necessary interest in the stability, integration, and performance of the other members. Each national administration, then, would have to accept multiple external accountabilities, beginning with those resulting from extensive intergovernmental consultations.

Within the European Community there has been some recognition of the interconnections between national political development and international political development, especially in dealing with the former authoritarian regime in Greece. In the Pacific context recognition of the links between the two levels of development would be the basis for Community engagement with the problems of establishing more responsible administrations in the authoritarian ASEAN states, and, thus, in helping to overcome their potentially dangerous vulnerabilities to political violence.

242. A third foundation principle would be that intensive and well researched discussions between all the members should establish an appropriate balance between the general interest in the openness of the participating national economies and each administration's interests in making its economic sovereignty effective, especially through supporting and guiding its industries in the service of its own country and of the community

market. The Pacific economic community would become a common but "managed" market; the expansion of commerce within the grouping would be extensive but it would be subject to common guidance, and, while direct investment flows would increasingly penetrate and link the national economies, they would be directed within national plans and, hopefully, within a community plan. While core areas of the community would tend to benefit at the expense of peripheral areas, drawing larger investments into heavier concentrations of industry, national administrations and the community institutions would be able to counter such tendencies and foster growth in backward areas.¹⁴⁸ Such redirection and guidance of growth however would not depend solely on administrative measures: hopefully the transnational associations of business groups which had helped to sponsor regional cooperation would share a concern for balanced growth throughout the community.

243. The norms that can be suggested to give application to the basic principles of cooperation concern equality and the functioning of the regional structures. The ideal of equality would be given expression in the terms of participation in the collective decision making and in the sharing of the resultant collective benefits. The structures would have to develop capabilities for the provision of increasingly substantial and diversified outputs. Such norms, as they become established, would set the stage for the realization of the same values in the context of security cooperation in the community setting.

244. The common commitments to equality of course would rule out any forms of discrimination, while permitting protective assertions of interest to counter discriminatory behavior if necessary, and would encourage expectations of general reciprocation to cooperative behavior. The equality norm however would be qualified with respect to the authoritarian states in the proposed community, under the basic principle of linkage between levels of national political development and the community's prospective evolution as an international political system. Yet the equality norm would prohibit the formation of coalitions within the grouping except within a system of rules

that would attempt to bring the smaller states together for a more equal distribution of bargaining power. Such rules, hopefully, would become established within any subsequent framework of military cooperation.

245. The functional norm would require growth in the capacities of the regional institutions, and especially in the regional bureaucratic structure which, like the European Commission, would endeavor to support the collective decision making process with inputs based on the aggregated interest of groups within the member states. The development of a rong role by this structure would be essential for the evolutic of the new regional community as a mechanism producing commc benefits that would reinforce cohesion within the grouping.

246. Altogether, the choices made in determining principles and norms for cooperation within a Pacific economic community would have very important effects on the development of solidarity and the resolution of strains within the association, and thus to a large extent would influence the context in which regional military cooperation could evolve. This prospect, in conjunction with the medium and longer term strategic forecasts that can be made for East Asia, must concern military planners in the Pacific states. It should be of special concern to these planners that, in the view of one eminent economist, the Pacific countries have been handling their interdependencies badly!¹⁴⁹

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13. ABSTRACT Proposals for the establishment of a Pacific Community comprising the open market economies of East Asia and North America are being put forward by private groups, with some official backing, in Japan, the USA, Australia, and certain Southeast Asian countries. Cultural contrasts, differences in levels of modernization, and long distances, discourage optimism about the prospects for such a grouping, but the economic bonds between Pacific states are substantial, and are growing rapidly. Large communication flows across the Pacific moreover are tending to increase regional awareness and understanding.		
Involvement in a Pacific Community could bring substantial benefits to the North American states. The growth of economic cooperation within such an association could also have major direct and indirect consequences of defence significance for the USA and Canada. In such a community Japan would be able to play a stronger security role than the one which it has begun to assume in the present pattern of East Asian relations. Moreover, certain authoritarian regimes in East Asia whose domestic policies generate social tensions could be induced to manage their political economies more responsibly, because of the external influences to which they would have to respond.		

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